



BOARD PRESENTATION

SEPTEMBER 27, 2013

HENRY COUNTY HOSPITAL

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BENCHMARKING

BOARD LETTER



CONSOLIDATED FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

DECEMBER 31, 2012 AND 2011

HENRY COUNTY HOSPITAL

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REPORT OF INDEPENDENT AUDITORS

Board of Trustees
Henry County Memorial Hospital
New Castle, Indiana

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

We have audited the accompanying consolidated financial statements of Henry County Memorial Hospital (Hospital), a component unit of Henry County, which comprise the consolidated balance sheets as of December 31, 2012 and 2011, and the related consolidated statements of operations, changes in net position, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of Henry County Hospital Foundation (The Foundation), a blended component unit, which statements reflect total assets of approximately \$33.3 million and \$34.6 million as of December 31, 2012 and 2011, respectively, and total revenues of approximately \$3.7 million and \$4.8 million, respectively, for the years then ended. We did not audit the financial statements of HCMH Diversified Management Corporation (DMC), a blended component unit, which statements reflect total assets of approximately \$4.2 million and \$5.1 million as of December 31, 2012 and 2011, respectively, and total revenues of approximately \$21.9 million and \$23.1 million, respectively, for the years then ended. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion, in so far as it relates to the amounts included for the Foundation and DMC, is based solely on the reports of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the Guidelines for Audits of County and City Hospitals by Independent Certified Public Accountants, issued by the Indiana State Board of Accounts. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

Board of Trustees
Henry County Memorial Hospital
New Castle, Indiana

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, based on our audits and the reports of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Hospital as of December 31, 2012 and 2011, and the results of operations, changes in its net position, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

REPORT ON REQUIRED SUPPLEMENTARY INFORMATION

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Board of Trustees
Henry County Memorial Hospital
New Castle, Indiana

REPORT ON OTHER INFORMATION

The Other Information listed in the table of contents is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, based upon our audits and the reports of other auditors, the Other Information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Blue & Co., LLC

September 27, 2013
Indianapolis, Indiana

REQUIRED SUPPLEMENTARY INFORMATION

HENRY COUNTY HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2012 (WITH COMPARATIVE TOTALS FOR 2011 AND 2010)

Management's discussion and analysis of Henry County Memorial Hospital's (the Hospital) financial performance provides an overview of the Hospital's financial activities for the fiscal year ended December 31, 2012. Please read it in conjunction with the Hospital's financial statements, which begin on page 4. As mentioned in Note 1, the financial statements include the Hospital, as well as Henry County Hospital Foundation, Inc. and HCMH Diversified Management Corporation (DMC), collectively referred to as the Hospital.

USING THIS ANNUAL REPORT

The Hospital's financial statements consist of a Balance Sheet, a Statement of Operations and Changes in Net Position, and a Statement of Cash Flows. These financial statements and related notes provide information about the activities of the Hospital.

THE BALANCE SHEET AND STATEMENT OF OPERATIONS AND CHANGES IN NET POSITION

One of the most important questions asked about the Hospital's finances is, "Is the Hospital as a whole better or worse off as a result of the year's activities?" The Balance Sheet and the Statement of Operations and Changes in Net position report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net position and changes in them. You can think of the Hospital's net position – the difference between assets and liabilities - as one way to measure the Hospital's financial health, or financial position. Over time, increases or decreases in the Hospital's net position are one indicator of whether the financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the Hospital's patient base and measures of the quality of service provided to the community, as well as local economic factors to assess the overall health of the Hospital.

THE STATEMENT OF CASH FLOWS

The final required statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net change in cash resulting from operations, investing, and financing activities. It provides answers to such questions as "Where did cash come from?" "What was cash used for?" and "What was the change in cash balance during the reporting period?"

HENRY COUNTY HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2012 (WITH COMPARATIVE TOTALS FOR 2011 AND 2010)

THE HOSPITAL'S NET POSITION

The Hospital's net position is the difference between its assets and liabilities reported in the Balance Sheet on pages 4-5. The Hospital's net position increased by \$4,435,622 or 6.7% from 2011 to 2012 and decreased by \$422,790 or .6% from 2010 to 2011 as you can see from Table 1.

Table 1: Assets, Liabilities and Net position:

	2012	2011	2012-2011 Change	2010
Assets				
Current assets	\$ 25,652,310	\$ 19,885,159	\$ 5,767,151	\$ 20,657,880
Capital assets, net	34,554,662	35,839,053	(1,284,391)	39,952,111
Other investments and assets	43,086,435	42,955,702	130,733	38,363,150
Total assets	<u>\$ 103,293,407</u>	<u>\$ 98,679,914</u>	<u>\$ 4,613,493</u>	<u>\$ 98,973,141</u>
Liabilities				
Current liabilities	\$ 12,413,619	\$ 11,583,546	\$ 830,073	\$ 10,663,977
Long term debt, net of current portion	19,912,384	20,798,430	(886,046)	21,588,436
Other long term liabilities	233,844	-0-	233,844	-0-
Total liabilities	<u>\$ 32,559,847</u>	<u>\$ 32,381,976</u>	<u>\$ 177,871</u>	<u>\$ 32,252,413</u>
Net position				
Invested in capital assets, net of related debt	\$ 13,530,640	\$ 13,992,961	\$ (462,321)	\$ 17,400,902
Internally designated	15,633,512	14,707,012	926,500	16,935,251
Held by trustee	1,256,969	-0-	1,256,969	-0-
By donor - expendable - for capital acquisition	975,196	888,934	86,262	925,991
Unrestricted	39,337,243	36,709,031	2,628,212	31,458,584
Total net position	<u>\$ 70,733,560</u>	<u>\$ 66,297,938</u>	<u>\$ 4,435,622</u>	<u>\$ 66,720,728</u>

The decrease in capital assets from 2011 to 2012 is due depreciation outpacing asset additions in the current year. The Hospital opened a new catheterization lab in April 2012. Capital asset acquisitions mainly related to the Soarian Financials electronic medical record system and the catheterization lab.

Changes in long term debt related to current year principal payments. The Hospital issued approximately \$5,600,000 in revenue bonds in March 2012 to help fund the purchase of various capital expenditures. During 2011, the Hospital sold the building and improvements and related equipment of the Woodlands assisted living facility. The proceeds of approximately \$4,500,000 from this sale were used to pay down long-term debt.

It should also be noted that there was increase in total net position from 2010 to 2012 of \$4,012,832 or 6% showing the stability of the Hospital and its operations.

HENRY COUNTY HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2012 (WITH COMPARATIVE TOTALS FOR 2011 AND 2010)

OPERATING RESULTS AND CHANGES IN THE HOSPITAL'S NET POSITION AND CASH FLOWS

In 2012, the Hospital's operating income decreased by \$1,270,338 as shown in Table 2.

Table 2: Operating Results, Changes in Net position and Cash Flows

	2012	2011	2011-2010 Change	2010
Operating revenues				
Net patient service revenues	\$ 98,168,981	\$ 86,251,468	\$ 11,917,513	\$ 87,385,395
Other operating revenues	4,505,443	4,105,637	399,806	3,799,186
Total operating revenues	102,674,424	90,357,105	12,317,319	91,184,581
Operating expenses				
Salaries and benefits	51,017,612	50,893,556	124,056	53,837,580
Medical supplies and drugs	13,886,902	13,247,683	639,219	13,704,684
Depreciation and amortization	5,139,261	4,958,937	180,324	5,127,889
Other operating expenses	32,731,589	20,087,531	12,644,058	20,160,995
Total operating expenses	102,775,364	89,187,707	13,587,657	92,831,148
Operating income (loss)	(100,940)	1,169,398	(1,270,338)	(1,646,567)
Non-operating revenues and expenses				
Investment income (loss)	4,451,702	(1,638,486)	6,090,188	3,600,417
Other non-operating revenues and expenses, net	84,860	46,298	38,562	(352,925)
Total non-operating revenues (expenses)	4,536,562	(1,592,188)	6,128,750	3,247,492
Change in net position	4,435,622	(422,790)	4,858,412	1,600,925
Net position beginning of year	66,297,938	66,720,728	(422,790)	65,119,803
Net position end of year	\$ 70,733,560	\$ 66,297,938	\$ 4,435,622	\$ 66,720,728

OPERATING INCOME

Declining volumes continue to negatively impact operating income, although the addition of long-term care operations during 2012 substantially increased net patient service revenues. Henry County's population is not growing and higher co-pays and deductibles are increasing for patients which are affecting decisions on elective care. In addition, external pressures are driving down volumes in some areas such as imaging where there is a national effort to reduce tests due to cost, unnecessary utilization and concern about overexposure to radiation. The uncertainty on future operating income is heightened for 2013 depending on the final effects of the budget sequestration, Indiana's decision on expanding Medicaid and implementation of the Patient Protection & Affordable Care Act.

HENRY COUNTY HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2012 (WITH COMPARATIVE TOTALS FOR 2011 AND 2010)

The 2012 Consumer Survey indicated the Hospital is the brand leader in its major service area. The survey also showed an increased use of New Castle primary care physicians, helping reverse a negative trend identified in the 2008 Consumer Survey. There is increasing activity by other health systems to capture the Henry County market in areas such as cardiology and orthopedics. The Hospital continues to add or enhance service lines to try to stem declining volumes and to compete with area health systems.

Significant expansion of cardiology services occurred in 2012. The Hospital became accredited by the Society of Chest Pain Centers. The new Cardiovascular Center (the Center) is a partnership with St. Vincent Heart Center of Indiana and opened in the spring of 2012. St. Vincent Heart Center of Indiana is recognized as one of the leading-if not the leading-heart centers in Indiana and remained the dominant cardiology preference in the 2012 Consumer Survey.

A clinical affiliation with St. Vincent Heart Center of Indiana (SVHCI) helps improve cardiology services and provides the opportunity for patients who need more complex cardiovascular care to have a seamless transition to SVHCI. The Center provides diagnostic heart catheterizations and some vascular services. It is staffed by physicians and employees of St. Vincent Heart Center of Indiana. Through St. Vincent Medical Group the Hospital also is expanding vascular services.

The Hospital had anticipated opening the Cardiovascular Center would increase cardiology outpatient visits and imaging tests related to cardiovascular procedures. This did not occur in 2012 due to the resignation of a full-time cardiologist which prompted the interim loss of volumes while arrangements were made for cardiologists from St. Vincent Medical Group to provide staffing for Henry County Cardiology. This situation has stabilized and the Hospital expects volume increases in 2013.

The addition of a fourth orthopedic surgeon and a full-time urologist in fall 2012 should grow volumes in these areas in 2013. Volumes continue to increase at the Advanced Wound Center. A podiatrist opened an office to see patients here as well as at the Advanced Wound Center and is also performing podiatric surgery at the Hospital.

HealthLink, an employer clinic, opened in June with a focus on improving health, not just treating illness. They provide full-service primary care from infants to adults, wellness services and health coaching for employees/dependents of participating businesses including Henry County Hospital, The City of New Castle, New Castle and Blue River Valley School Systems and Henry County government. The Hospital is hopeful new patients will be gained from employees/dependents that previously were seeing physicians outside of New Castle.

HENRY COUNTY HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2012 (WITH COMPARATIVE TOTALS FOR 2011 AND 2010)

In addition to working to increase volumes, management addressed the impact of the declining volumes through a variety of operational initiatives including low census days for staff and managing expenses to volumes.

Volume changes for the Hospital for 2012 and 2011 are as follows:

<u>Service</u>	<u>Volume Change 2011-2012</u>	<u>Volume Change 2010-2011</u>
Admissions (excluding newborns)	-7.3%	-10.2%
Emergency department visits	-0.3%	0.8%
Outpatient registrations	-5.8%	-3.5%
Deliveries	-5.4%	2.0%
Inpatient surgeries	-3.7%	-12.7%
Outpatient surgeries	-0.6%	-1.7%
Computed tomography (CT) scans	-17.0%	0.8%
Nuclear scans	-22.2%	-13.9%
Magnetic resonance imaging (MRI) scans	1.7%	-9.0%
Mammography procedures	-13.1%	-2.9%
Home health visits	2.2%	-14.7%
Hospice visits	31.5%	-1.1%
Wound care visits	208.0%	65.6%
Sleep center visits	-7.5%	-1.1%
Physical therapy visits	-2.0%	-5.8%

NONOPERATING INCOME

Nonoperating income was primarily driven by an increase in investment income, with a gain of approximately \$4.5 million in 2012 and a loss of approximately \$1.6 million in 2011. This can be attributed to the improvement in market performance from 2011 to 2012.

HOSPITAL CASH FLOWS

	<u>2012</u>	<u>2011</u>	<u>2011 - 2010</u> <u>Change</u>	<u>2010</u>
Cash flows from activities				
Operating	\$ 4,841,631	\$ 5,255,571	\$ (413,940)	\$ 3,812,381
Noncapital financing	452,345	625,198	(172,853)	139,222
Capital and related financing	(5,347,007)	(2,377,539)	(2,969,468)	(3,155,697)
Investing	5,628,068	(6,023,194)	11,651,262	(6,851,655)
	<u>\$ 5,575,037</u>	<u>\$ (2,519,964)</u>	<u>\$ 8,095,001</u>	<u>\$ (6,055,749)</u>

The Hospital continues to generate strong cash flows from operations with \$4,842,000 generated in 2012 and \$5,256,000 generated in 2011. Cash flows used in capital and related financing activities relate primarily to the purchase of property and equipment.

HENRY COUNTY HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2012 (WITH COMPARATIVE TOTALS FOR 2011 AND 2010)

BAD DEBT AND CHARITY CARE

Bad debt increased during 2012 due to the continued challenging economic conditions during the fiscal year. Charity care has been fairly stable since 2009 due to the success of ClaimAid in helping eligible patients receive Medicaid coverage.

	<u>Bad Debt</u>	<u>Charity</u>	<u>Total</u>	<u>% Chg</u>
2009	\$8,712,464	\$2,885,883	\$11,598,347	
2010	\$8,119,921	\$3,174,101	\$11,294,022	-2.62%
2011	\$9,259,577	\$3,432,942	\$12,692,519	12.38%
2012	\$10,008,823	\$3,489,418	\$13,498,241	6.35%

STRATEGIC PLANNING –HEALTH CARE REFORM PREPARATION

The rapid pace and changing expectations of healthcare reform continue to impact the strategic planning process. In 2012, the Hospital reached several significant milestones and achievements and continued with planning for 2013 key initiatives:

Soarian Financials and Scheduling were implemented, providing a more robust system necessary to support the move to ICD 10 in 2014.

The Hospital met CMS guidelines for 30-day readmissions and was not penalized by CMS with a 1% reduction in Medicare payments. Two-thirds of the hospitals nationwide were penalized. A Care Transitions Nurse was hired to provide care coordination for high risk patients after Hospital discharge.

The Hospital's Value Based Purchasing (VBP) scores on quality and inpatient satisfaction earned a bonus of approximately \$30,000 and ensured the Hospital would not have a 1% reduction in Medicare payments for Medicare's 2013 fiscal year which began in October, 2012. The 1% represented approximately \$100,000 in income that was not lost.

An Accountable Care Consortium (ACC) was formed with Community Health Network, St. Vincent Health and six hospitals that belong to Suburban Health Organization. The ACC partners have a shared vision of redesigning healthcare to create a healthier community, improve healthcare quality and lower healthcare costs.

Meaningful Use Stage 1 criteria were met for both the Hospital and employed outpatient physician practices. Implementing Computer Provider Order Entry will be accomplished in 2013.

HENRY COUNTY HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2012 (WITH COMPARATIVE TOTALS FOR 2011 AND 2010)

ENGAGING STAFF

An engaged staff is critical to meeting expectations of quality, patient satisfaction, efficiency and financial performance.

In 2013, a Performance Scorecard and Employee Incentive Bonus will provide staff up to a 3% bonus if all criteria are met in four categories: Finance/Growth, People, Service/Guest Satisfaction and Quality. A modified employee evaluation system will begin in 2013 to identify staff whose performance and behaviors will need to improve in order to remain in that position.

Chief Executive Officer briefings are held by the Hospital's Chief Executive Officer for directors, supervisors and hourly employee representatives of all Hospital departments and Medical Group offices. Topics include decisions by the Board of Trustees, financial and volume updates and Hospital initiatives such as health care reform, quality, guest satisfaction and growth.

HENRY COUNTY HOSPITAL MEDICAL GROUP

Henry County Hospital Medical Group (the Group), includes providers in 12 specialties including anesthesiology, family medicine, internal medicine, obstetrics/gynecology, orthopedics, physiatry, pain management, general surgery, hospice, pediatrics and radiology.

Physician extenders are actively used in family medicine, obstetrics/gynecology, pediatrics, anesthesiology, walk-in care and orthopedics/physiatry. The Group anticipates further expanding their use in order to accommodate the expected patient increase as more people become insured under health care reform requirements.

In conjunction with the Hospital, the practices are working to become more collaborative and better aligned for success in the "Curve 2" world of value based pricing, bundled pricing, and population management. A Physician Performance Scorecard and Incentive Bonus plan is being developed which will include measurements in four categories: Finance/Growth, Service/Guest Satisfaction, Quality and Alignment Initiatives such as meeting Meaningful Use Stage 2.

In 2012, New Castle Family & Internal Medicine began the process of developing what the Advisory Board calls a "High Performance Medical Group." In 2013, this initiative will be extended to all outpatient physician practices.

HENRY COUNTY HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2012 (WITH COMPARATIVE TOTALS FOR 2011 AND 2010)

The focus of efforts is on:

- Creating a common culture
- Fostering partnership
- Formalizing physician control
- Improving patient satisfaction
- Extending performance enhancing tools
- Leveraging transparency
- Designing strategy-aligned compensation

Professional Research Consultants, a national research company, began patient satisfaction surveys for New Castle Family & Internal Medicine, New Castle Pediatrics and New Castle Walk-In Care. In 2013 these surveys will be expanded to all of the Group's outpatient practices. Processes are being developed to analyze the results and work on improvement initiatives.

In 2012, Relative Value Unit (RVU) volumes increased for the pediatrics, family & internal medicine, ob/gyn, and general surgery practices. Volumes were down slightly for walk-in care, internal medicine and orthopedics. Volume decreases in orthopedics and internal medicine were related to the installation of NextGen Electronic Health Record and should stabilize for 2013.

PROVIDER RECRUITMENT

Provider recruitment encompasses physicians, nurse practitioners, physician assistants and certified registered nurse anesthetists. While the major effort is to fill positions needed in Henry County Hospital Medical Group (the Group), adding providers in specialties not provided by the Group is an important recruitment component.

In 2012, a new orthopedic surgeon, orthopedic physician assistant, physiatry/pain management physician assistant, CRNA and a family medicine nurse practitioner joined the Group. In early 2013, a family medicine physician also joined the Group.

Cardiologists from St. Vincent Medical Group were recruited to provide full-time cardiology services through Henry County Cardiology and a new cardiology nurse practitioner joined in 2013. A full-time urologist began practice in the fall. A new physician's assistant also began work in the Emergency Department. Additional nurse practitioners are being recruited for primary care.

Merritt Hawkins and Suburban Health Organization are assisting in recruiting a new primary care physician and pediatrician. Efforts to recruit a new internal medicine physician are proving difficult because most internal medicine residents choose to go into a subspecialty or pursue a hospitalist career.

HENRY COUNTY HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2012 (WITH COMPARATIVE TOTALS FOR 2011 AND 2010)

MARKETING

Marketing continues to focus on enhanced brand development, marketing hospital services and physicians, community outreach and employee communications. A variety of communication vehicles are used to reach our target market areas in Henry County and western Wayne County. The physician liaison calls on physicians practicing in those areas who are not employed by the Hospital to encourage them to use the Hospital services. Most Need A Doctor phone line requests are for primary care and Need A Doctor staff arranges the initial appointment for them.

PHARMACY

Pharmacists are now meeting with inpatients to help them better understand their medications, the importance of taking them correctly and potential side effects. Any nurse or patient can request the counseling and patients are given a card with pharmacy phone numbers to call when they are in the hospital as well as whom they can call after discharge.

A new waste disposal system that helps keep wasted pharmaceuticals from reaching the environment was installed. Systems were upgraded to coincide with the introduction of Soarian Financials and the Pyxis dispensing units were upgraded to the newest versions.

PATIENT EXPERIENCE

Providing a positive patient experience always has been important to a hospital's reputation. With the advent of Value Based Purchasing (VBP), which incorporates Hospital Consumer Assessment of Healthcare Providers and Systems (HCAHPS) patient experience of care scores into their overall ratings, inpatient experiences now directly affect financial performance either positively or negatively.

For Fiscal Year 2013, (October 2012) Henry County Hospital scored significantly higher than Indiana and national averages for their Value Based Purchasing scores which included inpatient experience of care (HCAHPS).

Improving the patient experience is an ongoing and important process and competition among hospitals to have a high HCAHPS rating will only increase due to the financial implications of Value Based Purchasing. In 2013, a Service Excellence Coordinator will be hired to further enhance and coordinate the patient experience for hospital inpatients and outpatients and patients seen in our physician offices.

HENRY COUNTY HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2012 (WITH COMPARATIVE TOTALS FOR 2011 AND 2010)

While many initiatives were undertaken in 2012, some of the key programs that help enhance our patient experience include:

- Patient/Family Advisory Councils help us better understand our inpatient guest experiences.
- The “Ssh” campaign helps reduce noise on patient units.
- A No Pass Zone encourages staff from patient care areas to assist nursing by stopping and checking if they see a patient call light on to find out if they can assist the patient or if they need to find the patient’s nurse or another clinical person to see that the patient’s need gets met more quickly.
- Charting areas “hubs” have been created on the Progressive Care Unit (PCU) in order to decrease the noise level within nurses’ stations. Charting “hubs” also allow for close patient observation and quicker call light attention.
- Pharmacy is offering one on one patient education on PCU.
- Nursing to offer standardized medication education with medication administration.
- Thank you cards are sent to patients after their discharge. Staff also sends sympathy cards.
- Customer service training is provided for all new staff.
- Bedside reporting is occurring in the Intensive Care Unit (ICU) and Progressive Care Unit (PCU) to improve patient safety and provide the patients an opportunity to hear what is happening with their care and to ask questions.
- ICU created a Quiet Zone from 11pm-5am to reduce noise and promote patient rest.

In addition to the required HCAHPS survey, the Hospital also conducts Press Ganey surveys. The average scores in 2012 were:

Inpatient:	88 Mean Score	83rd Percentile Rank
Emergency Department:	85 Mean Score	49th Percentile Rank
Outpatient:	91 Mean Score	16th Percentile Rank

Concern about patient experience also expands to our physician practices. New Castle Pediatrics was honored with a Star Performer Award from MDWise for going above and beyond to provide high levels of quality and service to patients. MDWise serves Indiana residents covered by the Hoosier Healthwise, Healthy Indiana Plan and Care Select health programs. PRC, a national research company, began patient satisfaction surveys for New Castle Family & Internal Medicine, New Castle Pediatrics and New Castle Walk-In Care. In 2013, these surveys will be expanded to all of our employed outpatient physician practices.

HENRY COUNTY HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2012 (WITH COMPARATIVE TOTALS FOR 2011 AND 2010)

CMS QUALITY MEASURES

The Hospital actively monitors and works to improve the Centers for Medicare and Medicaid Services (CMS) quality measures for heart attack, heart failure, pneumonia and surgical procedures. High scores on these measures are particularly important because in Fiscal Year 2014 (Oct. 2013) they will represent 45% of the Value Based Purchasing Score. CMS implemented 11 new Outpatient - ED Throughput Measures for reporting during the 1st quarter of 2012. These measures are not part of VBP at this time, but are being reported in order to show process improvement.

The Performance Improvement Team approved the aggressive goal/threshold of 99% for CMS measures 4th quarter 2011. During fourth quarter 2012, Health Care Excel posted an overall quality measures report and the Hospital's score was 97.8%. Periodically measures fail for appropriate reasons, as the measures cannot address all situations. Our low volumes also impact our ability to always meet the aggressive goal of 99%.

PATIENT SAFETY

The Hospital is accredited by the Healthcare Facilities Accreditation Program. Indiana has an Adverse Event Reporting program and the Hospital had no reportable events in 2012.

The Event Management System (EMS) in conjunction with Suburban Health Organization (SHO) has been in place for five (5) years. It continues to be an effective way to identify and track hospital incidents, share best practices and identify additional areas for improvement.

Overall, the Hospital had a decrease in events reported of approximately 45%. There were significant decreases in: Intravenous Events (80% decrease) and Testing/Treatment Events (56% decrease). The decreases are caused by a change in reporting procedure.

In 2012, we reported only intravenous (IV) infiltrations of solutions/drips that have the capacity to cause skin extravasations or actually caused injury as opposed to reporting all IV infiltrations regardless of harm caused or potential to cause harm. IV Smart Pumps also help reduce IV Medication errors.

We continue to see a decrease in the Testing/Treatment category primarily due to a decrease of Soarian order entry errors. These errors dropped dramatically when order entry responsibility was moved from the floor nurses to the lab and imaging departments.

HENRY COUNTY HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2012 (WITH COMPARATIVE TOTALS FOR 2011 AND 2010)

Empirically proven bundles are used for prevention of ventilator associated pneumonia (VAP), central line blood stream infections and Foley catheter urinary tract infections (UTI). One VAP case was reported, which was the first since 2005. No central line blood stream infections occurred and only four urinary tract infections were reported which was a decrease from the sixteen reported in 2011. A Bladder Scanner was purchased which has contributed to the decrease of UTI's. In 2012, five (5) nosocomial pressure ulcers occurred. Although none were reportable this is an increase over 2011 when none occurred.

The Hospital continues to stress early identification of patients at high risk for nosocomial pressure ulcers in order to assure proper use of redistribution surfaces, adherence to turning policies and nutritional evaluation and education if indicated. Patients with open areas also are included in wound care assessments. In late 2011, the wound care team was redefined.

The Patient Care Unit has a nurse dedicated to the daily assessment of patients identified at high risk for nosocomial pressure ulcers. Four (4) of the five (5) identified nosocomial pressure ulcers that occurred during 2012 were from the Intensive Care Unit (ICU). ICU workflow regarding daily assessment of high risk patients is being reviewed and discussed. A new wound care blog is used which allows wound care team members to review documentation via a shared Google document. Specific beds that decrease skin friction and turn acutely ill patients regularly are encouraged.

Patient falls increased for a second consecutive year in 2012 with 69 falls reported compared to 65 falls reported in 2011 and 53 falls reported in 2010. Thirty-one were inpatient (compared to 30 in 2011). No falls resulted in major injury. During 4th quarter 2012, the Falls Committee was revamped with new protocols and staff education put into place for 2013.

The Patient Safety Committee reviews all patient events to identify trends within particular categories or departments and to discuss any needed actions. These findings are provided to Department Directors who share this information with their staff in order to keep them informed and educated on efforts to improve patient safety.

Medication errors are reported through the Pharmacy and Therapeutics section of the Medical Review Committee. Nursing staff were required to complete a Computer Based Learning module on hospital policies regarding high alert medication and double checks.

HENRY COUNTY HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2012 (WITH COMPARATIVE TOTALS FOR 2011 AND 2010)

Clinical case review is done through Medical Staff Department meetings. Information regarding Medical Staff protocols is discussed, and recommendations are made, at the Performance Improvement (PI) Committee. Reports are sent from PI on to the Joint Conference Committee. This is an effective method of communicating information and involves leadership in correcting processes that are identified as needing improvement.

COMMUNITY BENEFITS

HCH provided \$2,156,487 in community benefits for 2011, the most recent year reported. The Hospital provides health education programs including childbirth classes, diabetes classes, smoking cessation and stress management. We also participate in a number of community initiatives including health fairs. Over 500 women attended the fifth Affairs of the Heart program designed to educate women about their risk for heart disease and preventative measures they can take. Quarterly Parish Nurse programs are held to encourage the growth of Parish Nursing in local churches. An annual meeting for school nurses is sponsored in conjunction with the Henry County Health Department, New Castle Family & Internal Medicine and New Castle Pediatrics.

Henry County Sports Medicine provides low-cost game coverage, injury checks and performance enhancement programs for area high schools. The Hospital and its staff support area agencies, programs and events such as Henry County Wellness Council, Henry County Healthy Communities, Relay for Life and in 2013 will support the third triathlon in Henry County – Summit Lake Triathlon – to encourage people of all abilities to participate and promote healthier lifestyles.

SCHOLARSHIPS AND TEACHING HOSPITAL AID RECRUITMENT

The Hospital serves as a clinical site for Ivy Tech State College's two-year RN program in New Castle. Each year, students take various clinical rotations at HCH and often are hired as permanent staff. In 2012, two Ivy Tech pharmacy technician students interned at the Hospital. The Henry County Hospital Foundation committed \$250,000 to Ivy Tech to add a \$1 million health education wing to their new campus on the south side of New Castle. The Foundation also provided financial support for faculty and office space for the registered nurse program in New Castle.

The Hospital is an integral part of the Health Career Programs sponsored by New Castle Area Career Programs. Each year approximately 45 students participate in the two clinical sections at Henry County Hospital: Nursing and Allied Health which includes careers such as imaging, respiratory, pharmacy, lab, physical therapy and dietary. Admittance to the program is very competitive and students can earn up to 14 college dual credits by their participation.

HENRY COUNTY HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2012 (WITH COMPARATIVE TOTALS FOR 2011 AND 2010)

The Dr. Cloyd L. and Mary Lou Dye scholarship fund provides financial support for medical students, interns, residents and fellows. Seven scholarships were awarded in 2012 to Henry County residents.

The Henry County Hospital Foundation offers a variety of scholarships for students interested in healthcare careers and working at Henry County Hospital after graduation. They are available for high school seniors as well as for adults who are pursuing a new or second career in health care. In the last eight years, 177 nursing and other health care scholarships worth \$256,145 have been awarded from proceeds from our annual Gala, donations from the Henry County Hospital Auxiliary and endowments established by Sylvira Flanagan Koons, Alice Catherine Ratcliffe, LaVaughn Bailey, Gordon Sparks, Lynn Bowers MD Patient Hero and Ralph Bunner.

CONTACTING THE HOSPITAL'S FINANCIAL MANAGEMENT

This financial report is designed to provide fiscal reporting to patients, county residents, suppliers and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Controller at Henry County Hospital, 1000 North 16th Street, New Castle, Indiana 47362.

HENRY COUNTY HOSPITAL

CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2012 AND 2011

ASSETS		
	2012	2011
Current assets		
Cash and cash equivalents	\$ 9,766,279	\$ 5,458,188
Patient accounts receivable, net of estimated allowance for uncollectible accounts of \$7,726,983 in 2012 and \$6,589,589 in 2011	11,258,213	11,521,715
Supplies and other current assets	3,569,036	2,125,576
Current portion of assets whose use is limited	1,058,782	779,680
Total current assets	25,652,310	19,885,159
Investments	19,429,763	20,871,922
Assets whose use is limited		
Internally designated	15,633,512	14,707,012
By donor - expendable - for capital acquisition	975,196	888,934
Held by trustee	1,256,969	-0-
	17,865,677	15,595,946
Less current portion	1,058,782	779,680
Total assets whose use is limited	16,806,895	14,816,266
Capital assets, net	34,554,662	35,839,053
Other assets	6,849,777	7,267,514
Total assets	<u>\$ 103,293,407</u>	<u>\$ 98,679,914</u>

See accompanying notes to consolidated financial statements.

HENRY COUNTY HOSPITAL

CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2012 AND 2011

LIABILITIES AND NET POSITION

	2012	2011
Current liabilities		
Current portion of long-term debt	\$ 1,111,638	\$ 1,047,662
Accounts payable and accrued expenses	5,399,886	4,529,558
Accrued wages and related liabilities	3,943,720	4,060,929
Estimated third-party settlements	1,958,375	1,945,397
Total current liabilities	12,413,619	11,583,546
Other long-term liabilities	233,844	-0-
Long-term debt, net of current portion	19,912,384	20,798,430
Total liabilities	32,559,847	32,381,976
Net position		
Unrestricted	39,337,243	36,709,031
Invested in capital assets, net of related debt	13,530,640	13,992,961
Internally designated - funded depreciation	15,633,512	14,707,012
Restricted		
Held by trustee	1,256,969	-0-
By donor - expendable - for capital acquisition	975,196	888,934
Total net position	70,733,560	66,297,938
Total liabilities and net position	\$ 103,293,407	\$ 98,679,914

See accompanying notes to consolidated financial statements.

HENRY COUNTY HOSPITAL

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET POSITION YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
Operating revenue		
Net patient service revenue	\$ 98,168,981	\$ 86,251,468
Other revenue	4,505,443	4,105,637
Total revenue	102,674,424	90,357,105
Operating expenses		
Salaries and benefits	51,017,612	50,893,556
Medical professional fees	3,583,132	3,739,745
Purchased services	13,411,425	7,330,146
Medical supplies and drugs	13,886,902	13,247,683
Other supplies	1,540,805	1,085,650
Depreciation and amortization	5,139,261	4,958,937
Utilities	1,768,873	1,671,723
Rent	2,293,548	947,361
Hospital assessment fee	4,372,303	-0-
Other	5,761,503	5,312,906
Total expenses	102,775,364	89,187,707
Operating income (loss)	(100,940)	1,169,398
Nonoperating income (expense)		
Investment income (loss)	4,451,702	(1,638,486)
Interest expense	(546,517)	(578,900)
Other nonoperating	631,377	625,198
Total nonoperating income (expense)	4,536,562	(1,592,188)
Change in net position	4,435,622	(422,790)
Net position		
Beginning of year	66,297,938	66,720,728
End of year	\$ 70,733,560	\$ 66,297,938

See accompanying notes to consolidated financial statements.

HENRY COUNTY HOSPITAL

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
Cash flows from operating activities		
Cash received from patients and third party payors	\$ 94,068,548	\$ 84,926,896
Cash paid to employees for wages and benefits	(51,134,821)	(50,704,963)
Cash paid to vendors for goods and services	(42,693,794)	(32,869,068)
Other operating receipts, net	4,601,698	3,902,706
Net cash flows from operating activities	4,841,631	5,255,571
Cash flows from noncapital financing activities		
Other nonoperating	452,345	625,198
Net cash flows from noncapital financing activities	452,345	625,198
Cash flows from capital and related financing activities		
Acquisition and construction of capital assets	(3,572,147)	(4,814,535)
Loss (gain) on disposal of property and equipment	315	(463,270)
Proceeds from sale of property and equipment	705	4,513,483
Interest on long-term debt	(697,071)	(578,900)
Payments for 2012 bond issuance costs	(64,139)	-0-
Proceeds from issuance of long-term debt	5,589,189	-0-
Principal payments on long-term debt	(6,603,859)	(1,034,317)
Net cash flows from capital and related financing activities	(5,347,007)	(2,377,539)
Cash flows from investing activities		
Investment income	4,797,962	(1,638,486)
Change in other assets, net	390,403	(1,815,388)
Purchases of investments in assets whose use is limited - internally designated, held by trustee, and investments	(9,800,986)	(17,184,835)
Proceeds from sale of investments in assets whose use is limited - internally designated, held by trustee and investments	10,326,951	14,578,458
Change in assets whose use is limited - restricted by donor, net	(86,262)	37,057
Net cash flows from investing activities	5,628,068	(6,023,194)
 Net change in cash and cash equivalents	 5,575,037	 (2,519,964)
Cash and cash equivalents		
Beginning of year	5,668,801	8,188,765
End of year	\$ 11,243,838	\$ 5,668,801

See accompanying notes to consolidated financial statements.

HENRY COUNTY HOSPITAL

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2012 AND 2011

Reconciliation of operating income (loss) to net cash flows from operating activities	<u>2012</u>	<u>2011</u>
Operating income (loss)	\$ (100,940)	\$ 1,169,398
Adjustment to reconcile operating income (loss) to net cash flows from operating activities		
Depreciation and amortization	5,139,261	4,958,937
Bad debts	9,991,741	9,259,577
Changes in assets and liabilities		
Patient accounts receivable	(9,732,849)	(10,562,291)
Supplies and other current assets	(1,443,460)	(404,700)
Accounts payable and accrued expenses	858,265	667,915
Accrued salaries and related liabilities	(117,209)	188,593
Other long-term liabilities	233,844	-0-
Estimated third-party settlements	12,978	(21,858)
Net cash flows from operating activities	<u>\$ 4,841,631</u>	<u>\$ 5,255,571</u>

Reconciliation of cash and cash equivalents to the balance sheets

Cash and cash equivalents		
In current assets	\$ 9,766,279	\$ 5,458,188
In assets whose use is limited - internally designated	<u>1,477,559</u>	<u>\$ 210,613</u>
Total cash and cash equivalents	<u>\$ 11,243,838</u>	<u>\$ 5,668,801</u>

Supplemental cash flows information

Property acquired through capital lease obligations	\$ 192,600	\$ 329,200
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See accompanying notes to consolidated financial statements.

HENRY COUNTY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

1. SIGNIFICANT ACCOUNTING POLICIES

Organization and Reporting Entity

Henry County Memorial Hospital d/b/a Henry County Hospital (the Hospital) is a county owned facility and operates under the Indiana County Hospital Law, Indiana Code 16-22. The Hospital provides short-term inpatient and outpatient healthcare.

The Board of County Commissioners of Henry County appoints the Governing Board of the Hospital (Board) and a financial benefit/burden relationship exists between the Henry County and the Hospital. For these reasons, the Hospital is considered a component unit of Henry County.

On June 7, 1976, the Board of County Commissioners of Henry County, upon written request of the Henry County Hospital Board of Trustees created the Henry County Hospital Association. The Association was created pursuant to the provisions of Indiana Code 16-22-6 for the exclusive purpose of financing and constructing hospital facilities for the Hospital. The Association has no assets, no liabilities and conducts no operations.

Pursuant to the provision of long-term care, the Hospital owns the operations of two long term care facilities by way of an arrangement with the managers of the facilities. These facilities provide inpatient and therapy services. Generally, gross revenues from the operation of the facilities are the property of the Hospital and the Hospital is responsible for the associated operating expenses and working capital requirements. While the management and related lease agreements are in effect, the performance of all activities of the managers shall be on behalf of the Hospital and the Hospital retains the authority and legal responsibility for the operation of the facilities.

During 2012, the Hospital entered into lease agreements with the long-term care facilities, collectively referred to as the Lessors, to lease the facilities managed by the Managers. Concurrently, the Hospital entered into agreements with the Managers to manage the above leased facilities. As part of the agreements, the Hospital will pay the Managers a management fee to continue managing the facilities on behalf of the Hospital in accordance with the terms of the agreements. These management fees consist of base management fees, subordinated management fees, and quarterly incentive payments. The agreements expire at various times through December 31, 2016. The terms of these agreements may be renewed at the end of each term for an additional period of two years. All parties involved can terminate the agreement without cause with 90 days written notice. The component units discussed below are included in the Hospital's reporting entity because of the significance of their operational or financial relationships with the Hospital.

HENRY COUNTY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

Blended Component Units

Henry County Hospital Foundation, Inc. (the Foundation), is a significant component unit of the Hospital. The Hospital appoints a voting majority of the Foundation's Board of Directors and a financial benefit/burden relationship exists between the Hospital and the Foundation. Although it is legally separate from the Hospital, the Foundation is reported as if it were a part of the Hospital because it provides services entirely or almost entirely to the Hospital.

The activities of the Foundation may include capital improvements, educational programs, medical related research and initial capital for experimental health services related to the principal purpose of the Hospital. The Foundation also manages investments and rental property, provides equipment, grants scholarships for health careers, conducts physician recruitment and other medical programs as directed under the terms of a contract with the Hospital. The Foundation's separate audited financial statements can be obtained by contacting the Foundation.

HCMH Diversified Management Corporation (DMC) is a significant component unit of the Hospital. The Hospital is the sole shareholder and appoints DMC's Board of Directors and is able to impose its will. Although it is legally separate from the Hospital, DMC is reported as if it were a part of the Hospital because the two Boards of Directors/Trustees are substantially the same.

DMC provides laboratory services to the patients of New Castle Family & Internal Medicine, nursing homes, employees of the Hospital, physicians and veterinarians in the surrounding area. The performance of tests on the specimens collected by DMC is purchased from the Hospital. DMC also provides pharmacy services to the surrounding communities. DMC's separate audited financial statements can be obtained by directly contacting DMC.

DMC owns New Castle Clinic, Inc., which operates a physician group practice. DMC's results within these financials include those of the Clinic for the years ended December 31, 2012 and 2011.

All intercompany accounts and transactions have been eliminated.

HENRY COUNTY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Inventories

Inventories consist primarily of drugs and supplies and are valued at the lower of cost or market with cost being determined on the first-in, first-out (FIFO) method.

Enterprise Fund Accounting

The Hospital uses the enterprise fund method of accounting whereby revenues and expenses are recognized on the accrual basis. Substantially all revenues and expenses are subject to accrual.

Cash and Cash Equivalents

Cash and cash equivalents include all cash held in checking, savings and money market accounts available for operating purposes with original maturity dates of 90 days or less. The Hospital maintains its cash in accounts, which at times may exceed federally insured limits. The Hospital has not experienced any losses in such accounts. The Hospital believes that it is not exposed to any significant credit risk on cash and cash equivalents.

Other Long-Term Liabilities

Other long-term liabilities consist of the deferred liability for the salary continuation plan for a key employee that is due in over one year.

HENRY COUNTY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

Patient Accounts Receivable, Net and Net Patient Service Revenue

Patient service revenue and patient accounts receivable are recorded at the net realizable amounts based on established charges when the patient service is rendered. The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, discounted charges and per diem payments. Charges for services to patients are primarily based on the patients' ability to pay.

Patient accounts receivable are reduced by an allowance for uncollectible accounts based on the Hospital's evaluation of its major payor sources of revenue, the aging of the accounts, historical losses, current economic conditions, and other factors unique to its service area and the healthcare industry. Management regularly reviews data about the major payor sources of revenue in evaluating the sufficiency of the allowance for uncollectible accounts. For receivables associated with services provided to patients who have third-party coverage, the Hospital analyzes contractually due amounts and provides an allowance for uncollectible accounts and a provision for bad debts, if necessary. For receivables associated with self-pay payments the Hospital records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for uncollectible accounts.

During 2012, the Hospital's allowance for uncollectible accounts changed from approximately \$6,600,000 to \$7,500,000. As of December 31, 2012, the allowance for uncollectible accounts of \$7,500,000 was comprised of approximately \$7,000,000 reserved for self-pay balances and \$500,000 reserved for third-party payor balances. As of December 31, 2011, the allowance for uncollectible accounts of \$6,600,000 was comprised of \$6,200,000 reserved for self-pay balances and \$400,000 reserved for third-party payor balances.

The Hospital did not recognize a change in net position in 2012 and 2011 due to the differences between original estimates and subsequent revisions for the final settlement of cost reports.

HENRY COUNTY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

Net revenues from Medicare and Medicaid programs accounted for approximately 30 percent and 7 percent for the year ended 2012 and 38 percent and 7 percent for the year ended 2011. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount.

Investments in Debt and Equity Securities

Investments in debt and equity securities are reported at fair value except for short-term highly liquid investments that have a remaining maturity at the time they are purchased of one year or less. These investments are carried at amortized cost. Interest, dividends, and gains and losses, both realized and unrealized, on investments in debt and equity securities are included in nonoperating income when earned.

Assets Whose Use Is Limited

Assets whose use is limited are stated at fair value in the consolidated financial statements. These assets include investments internally designated by the Hospital Board for acquisition of property and equipment and debt service and donor restricted funds. These investments consist primarily of certificates of deposit, cash and cash equivalents, mutual funds, equities, and corporate bonds. Investment income is reported as nonoperating income in the consolidated statements of operations and changes in net position.

Bond Issue Costs

The Hospital provides for the amortization of costs incurred for the issuance of bonds over the life of the debt. Amortization expense for 2012 and 2011 was \$30,141 and \$27,278, respectively. Bond issue costs are included within other assets.

Capital Assets

Capital assets such as property and equipment are stated at cost and include expenditures for new additions and other costs added to existing facilities, which exceed \$1,000 and meet certain useful life thresholds. Contributed capital assets are reported at their estimated fair market value at the time of their donation. Maintenance, repairs and minor renewals are expensed as incurred.

HENRY COUNTY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

All capital assets, other than land, are depreciated using the straight-line method of depreciation using these asset lives:

<u>Description</u>	<u>Range of Useful Lives</u>
Land improvements	5 - 30 years
Buildings and fixed equipment	3 - 50 years
Major Movable equipment	3 - 20 years

Grants and Contributions

From time to time, the Hospital receives grants as well as contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

Restricted Resources

When the Hospital has both restricted and unrestricted resources available to finance a particular program, it is the Hospital's policy to use restricted resources before unrestricted resources.

Accounting Standards

During 2012, the Hospital adopted Statement of Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which supersedes GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, thereby eliminating the election provided in paragraph 7 of GASB No. 20 for business-type activities to apply post November 30, 1989, FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements. GASB No. 62 has been applied retrospectively and had no impact on the Hospital's net position or changes in net position.

HENRY COUNTY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

Also during 2012, the Hospital adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. This change resulted in renaming net assets to net position within the consolidated balance sheets and consolidated statements of revenues, expenses and changes in net position. This change also resulted in displaying a separate section for deferred outflows within the consolidated balance sheets. GASB No. 63 has been applied retroactively in the accompanying financial statements.

Hospital Assessment Fee Program

During 2012, Hospital Assessment Fee (HAF) Program for the period July 1, 2011 through June 30, 2013 was approved by Centers for Medicare & Medicaid Services retroactive to July 1, 2011. The purpose of the HAF Program is to fund the State share of enhanced Medicaid payments and Medicaid Disproportionate Share (DSH) payments for Indiana hospitals as reflected in the HAF Program expense reported in the consolidated statements of operations and changes in net position. Previously, the State share was funded by governmental entities through intergovernmental transfers. The Medicaid enhanced payments relate to both fee for service and managed care claims. The Medicaid enhanced payments are designed to follow the patients and result in increased Medicaid rates. During 2012 and 2011, the Hospital recognized HAF Program expense of approximately \$4,372,303 and \$-0-, respectively, which resulted in Medicaid rate increases of approximately \$7,362,732 and \$-0-, respectively.

Operating Revenues and Expenses

The Hospital's statement of operations and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services—the Hospital's principal activity. Nonoperating revenues include contributions received for purposes other than capital asset acquisition, and other nonoperating activities and are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

HENRY COUNTY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

Net Position

Net position of the Hospital is classified in various components. Net position - net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted net position consists of noncapital assets that must be used for a particular purpose, as specified by creditors, grantors, or donors external to the Hospital, including amounts deposited with trustees as required by revenue bond indentures. Internally designated net position consists of amounts internally designated by the board of directors. Unrestricted net position is the remaining net position that does not meet the definition of net invested in capital assets, internally designated, or restricted net position.

Compensated Absences

Regular employees of the Hospital earn paid days off (PDO) at rates of twenty-three days to thirty-nine days per year, based on the length of continuous employment and regular hours worked. PDO is adjusted proportionately to hours worked for employees working less than full time. No limit exists on the amount of PDO that may be accumulated. Accrued PDO is paid to employees who resign, giving a two-week notice or in the event of death. All employees may elect to be paid for PDO accumulated in excess of ten days. This option is available twice during the calendar year. The Hospital tracks the PDO accrual on a bi-weekly basis computed on the hourly rate and PDO balance per employee, and the financial statements recognize this liability. Accumulated PDO is reported as a current liability in the amount of \$1,640,341 and \$1,698,979 for 2012 and 2011, respectively.

Electronic Health Records (EHR) Incentive Payments

The Hospital receives EHR incentive payments under the Medicare and Medicaid programs. To qualify for the EHR incentive payments, the Hospital must meet "meaningful use" criteria that become more stringent over time. The Hospital periodically submits and attests to its use of certified EHR technology, satisfaction of meaningful use objectives, and various patient data. These submissions generally include performance measures for each annual EHR reporting period (Federal fiscal year ending September 30th). The related EHR incentive payments are paid out over a four year transition schedule and are based upon data that is captured in the Hospital's cost reports.

HENRY COUNTY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

The payment calculation is based upon an initial amount as adjusted for discharges, Medicare and Medicaid utilization using inpatient days multiplied by a factor of total charges excluding charity care to total charges, and a transitional factor that ranges from 100% in first payment year and thereby decreasing by 25% each payment year until it is completely phased out in the fifth year.

The Hospital recognizes EHR incentive payments as grant income when there is reasonable assurance that the Hospital will comply with the conditions of the meaningful use objectives and any other specific grant requirements. In addition, the financial statement effects of the grants must be both recognizable and measurable. During 2012 and 2011, the Hospital recognized approximately \$2,515,000 and \$485,000, respectively, in EHR incentive payments as grant income using the ratable recognition method. Under the ratable recognition method, the Hospital recognizes income ratably over the entire EHR reporting period when it is reasonably assured at the outset of the EHR reporting period that it will comply with the minimum requirements of the program.

EHR incentive income is included in other revenue in the consolidated statements of operations and changes in net position. EHR incentive income recognized is based on management's estimate and amounts are subject to change, with such changes impacting operations in the period the changes occur.

Receipt of these funds is subject to the fulfillment of certain obligations by the Hospital as prescribed by the programs, subject to future audits and may be subject to repayment upon a determination of noncompliance.

Risk Management

The Hospital is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice; and employee health, dental, and accident benefits.

Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Costs of Borrowing

Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. There was no interest capitalized during either 2012 or 2011.

HENRY COUNTY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

Federal or State Income Taxes

The Hospital is a governmental instrumentality organized under Title 16, Article 12, of the Indiana statutes. The Hospital is generally exempt from federal income tax under Section 115 of the Internal Revenue Code of 1986 as a not-for-profit organization under Section 501(c)(3). As a governmental entity, the Hospital is not required to file Federal Form 990 – Return of Organization Exempt from Income Tax which is an informational return only.

The Foundation is organized as a not-for-profit corporation under Section 501(c)(3) of the United States Internal Revenue Code. As such, the Foundation is generally exempt from income taxes. However, the Foundation is required to file Federal Form 990 – Return of Organization Exempt from Income Tax which is an informational return only. The Foundation has filed its federal and state income tax returns for periods through December 31, 2011. These income tax returns are generally open to examination by the relevant taxing authorities for a period of three years from the later of the date the return was filed or its due date (including approved extensions).

DMC is a for-profit organization incorporated in 1985 and the sole shareholder is the Hospital. DMC has filed its federal and state income tax returns for periods through December 31, 2011. These income tax returns are generally open to examination by relevant taxing authorities for a period of three years from the later of the date the return was filed or its due date (including approved extensions).

DMC has federal net operating loss carry forwards of approximately \$17,934,000, and a similar amount for state income taxes as of December 31, 2012, available to reduce future taxable income. Including valuation allowances, DMC has a net deferred tax asset of \$-0- for 2012 and 2011. These federal and state carry forwards begin to expire in 2022. The valuation allowance is established to reduce the deferred tax asset to the amount expected to be realized when it is more likely than not that all or some portion of the deferred tax asset will not be realized.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Hospital, Foundation, and DMC and recognize a tax liability if these organizations have taken an uncertain position that more likely than not would not be sustained upon examination by various federal and state taxing authorities. Management has analyzed the tax positions taken by these organizations, and has concluded that as of December 31, 2012 and 2011, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the accompanying consolidated financial statements. The Foundation and DMC are subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

HENRY COUNTY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

Charity Care

The Hospital provides care without charge or at amounts less than its established rates to patients who meet certain criteria under its charity care policy. Because the Hospital does not collect amounts deemed to be charity care, they are not reported as revenue. The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of services and supplies furnished under its charity care policy. The charity care charges provided during 2012 and 2011 were approximately \$3,489,000 and \$3,433,000, respectively.

Of the Hospital's total expenses reported, (approximately \$103,300,000 and \$89,800,000 including interest expense during the years ended December 31, 2012 and 2011, respectively), an estimated \$1,730,000 and \$1,630,000, at cost, arose from providing services to charity patients during the years ended December 31, 2012 and December 31, 2011, respectively.

The estimated costs of providing charity services are based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on the Hospital's total expenses (including interest expense) divided by gross patient service revenue.

Litigation

The Hospital is involved in litigation arising in the course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the Hospital's future financial position, results of operations and cash flows.

Reclassifications

Certain amounts from 2011 have been reclassified in order to conform to the 2012 presentation.

Investment in Affiliate

The Hospital has an equity interest in a joint venture. This investment is recorded on the equity method of accounting in the Hospital's consolidated financial statements.

HENRY COUNTY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

Subsequent Events

The Hospital evaluates events or transactions occurring subsequent to the consolidated balance sheet date for recognition and disclosure in the accompanying financial statements through the date the financial statements are issued which is September 27, 2013.

2. ACCOUNTS RECEIVABLE AND PAYABLE

Patient accounts receivable and accounts payable (including accrued expenses) reported as current assets and liabilities by the Hospital at December 31 are as follows:

	2012	2011
Patient accounts receivable		
Receivable from patients and their insurance carriers	\$ 24,880,968	\$ 16,886,640
Receivable from Medicare	4,824,086	7,582,978
Receivable from Medicaid	6,217,994	3,564,351
Total patient accounts receivable	35,923,048	28,033,969
Less contractual allowances	(16,937,842)	(9,922,665)
Less allowance for uncollectible amounts	(7,726,993)	(6,589,589)
Patient accounts receivable, net	<u>\$ 11,258,213</u>	<u>\$ 11,521,715</u>
Accounts payable and accrued expenses		
Payable to employees (including payroll taxes)	\$ 3,234,532	\$ 3,141,897
Payable to suppliers	5,399,886	4,529,558
Accrued employee health benefit claims	709,188	919,032
Total accounts payable and accrued expenses	<u>\$ 9,343,606</u>	<u>\$ 8,590,487</u>

HENRY COUNTY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

3. ASSETS WHOSE USE IS LIMITED

Assets that are required for obligations classified as current liabilities are reported in current assets. The composition of assets whose use is limited at December 31 is as follows:

	2012	2011
Board designated		
Funded depreciation		
Investments	\$ 14,155,953	\$ 14,496,399
Cash and cash equivalents	1,477,559	210,613
Held by trustee		
Cash and cash equivalents	1,256,969	-0-
Donor restricted assets		
Investments	975,196	888,934
	<u> </u>	<u> </u>
Total assets limited to use	<u>\$ 17,865,677</u>	<u>\$ 15,595,946</u>

4. DEPOSITS AND INVESTMENTS

Deposits with financial institutions in the State of Indiana at year-end were entirely insured by the Federal Depository Insurance Corporation or by the Indiana Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

Net realized gains and losses on security transactions are determined on the specific identification cost basis. Funded depreciation investments consist of cash equivalents, mutual funds and equities.

The Hospital's investments generally are reported at fair value, as discussed in Note 1. As of December 31, 2012 and 2011, the Hospital had the following investments and maturities, all of which were held in the Hospital's name by custodial banks that are agents of the Hospital.

December 31, 2012					
	Carrying Amount	Investment Maturities (in years)			
		Less than 1	1-5	6-10	More than 10
Mutual Funds	\$ 31,416,762	\$ 31,416,762	\$ -0-	\$ -0-	\$ -0-
Equities	4,174,241	4,174,241	-0-	-0-	-0-
Cash equivalents	1,704,437	1,704,437	-0-	-0-	-0-
	<u>\$ 37,295,440</u>	<u>\$ 37,295,440</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

HENRY COUNTY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

December 31, 2011					
	Carrying Amount	Investment Maturities (in years)			
		Less than 1	1-5	6-10	More than 10
Mutual Funds	\$ 32,406,469	\$ 32,406,469	\$ -0-	\$ -0-	\$ -0-
Equities	3,850,786	3,850,786	-0-	-0-	-0-
Cash equivalents	210,613	210,613	-0-	-0-	-0-
	<u>\$ 36,467,868</u>	<u>\$ 36,467,868</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

Interest rate risk - The Hospital does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from changing interest rates.

Credit risk - Statutes authorize the Hospital to invest in interest bearing deposit accounts, passbook savings accounts, certificates of deposit, money market accounts, mutual funds, pooled fund investments, securities backed by the full faith and credit of the United States Treasury and repurchase agreements. The statutes require that repurchase agreements be fully collateralized by U.S. Government or U.S. Government Agency obligations.

Concentration of credit risk - The Hospital places no limit on the amount it may invest in any one issuer. The Hospital maintains its investments, which at times may exceed federally insured limits. The Hospital has not experienced any losses in such accounts. The Hospital believes that it is not exposed to any significant credit risk on investments.

Deposits and investments consist of the following as of December 31, 2012 and 2011:

	2012	2011
Carrying amount		
Deposits	\$ 9,766,279	\$ 5,458,188
Investments	37,295,440	36,467,868
	<u>\$ 47,061,719</u>	<u>\$ 41,926,056</u>
Included in the balance sheet captions		
Cash and cash equivalents	\$ 9,766,279	\$ 5,458,188
Investments	19,429,763	20,871,922
Internally designated	15,633,512	14,707,012
Held by trustee	1,256,969	-0-
By donor - expendable - for capital acquisition	975,196	888,934
	<u>\$ 47,061,719</u>	<u>\$ 41,926,056</u>

HENRY COUNTY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

Investment income (loss) for 2012 and 2011 is summarized as follows:

	2012	2011
Unrealized gains (losses)	\$ 1,252,558	\$ (5,389,004)
Realized gains	2,441,784	2,824,262
Interest and dividends	757,360	926,256
Total investment income (loss)	<u>\$ 4,451,702</u>	<u>\$ (1,638,486)</u>

5. FAIR VALUE MEASUREMENTS

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). The three levels of the fair value hierarchy are described as follows:

- Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Hospital has the ability to access.
- Level 2: Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.
- Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used as of December 31, 2012 and 2011:

- *Equity securities:* Valued at the closing price reported on the active market on which the individual securities are traded.

HENRY COUNTY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

- *Mutual funds:* Valued at the daily closing price as reported by the fund. Mutual funds held by the Hospital are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds held by the Hospital are deemed to be actively traded.

The Hospital's policy is to recognize transfers between levels as of the actual date of the event or change in circumstances. There were no significant transfers between levels during 2012 and 2011.

The following table sets forth by level, within the hierarchy, the Hospital's assets and liabilities measured at fair value on a recurring basis as of December 31, 2012 and 2011 are as follows:

		December 31, 2012			
		Total	Level 1	Level 2	Level 3
Assets					
Investments & assets whose use is limited					
Mutual Funds:					
Fixed income funds	\$ 4,205,443	\$ 4,205,443	\$ -0-	\$ -0-	
Growth funds	10,461,928	10,461,928	-0-	-0-	
Large blend funds	3,219,705	3,219,705	-0-	-0-	
Index funds	5,921,773	5,921,773	-0-	-0-	
International funds	7,607,913	7,607,913	-0-	-0-	
Equities:					
Capital goods	162,708	162,708	-0-	-0-	
Consumer	425,220	425,220	-0-	-0-	
Energy	610,136	610,136	-0-	-0-	
Financial	850,486	850,486	-0-	-0-	
Healthcare	476,221	476,221	-0-	-0-	
International	471,148	471,148	-0-	-0-	
Materials	48,359	48,359	-0-	-0-	
Utilities	3,460	3,460	-0-	-0-	
Technology	582,500	582,500	-0-	-0-	
Services	544,003	544,003	-0-	-0-	
Total	35,591,003	<u>\$ 35,591,003</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	
Certificates of deposit and cash and cash equivalents *					
	1,704,437				
	<u>\$ 37,295,440</u>				

*Certificates of deposit are reported at contract value.

HENRY COUNTY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

		December 31, 2011			
		Total	Level 1	Level 2	Level 3
Assets					
Investments & assets whose use is limited					
Mutual Funds:					
Fixed Income Funds	\$ 4,887,506	\$ 4,887,506	\$ -0-	\$ -0-	
Growth Funds	12,129,352	12,129,352	-0-	-0-	
Index Funds	2,444,840	2,444,840	-0-	-0-	
International Funds	12,944,771	12,944,771	-0-	-0-	
Equities:					
Capital Goods	144,764	144,764	-0-	-0-	
Consumer	290,274	290,274	-0-	-0-	
Energy	619,505	619,505	-0-	-0-	
Financial	756,548	756,548	-0-	-0-	
Healthcare	593,112	593,112	-0-	-0-	
International	392,290	392,290	-0-	-0-	
Materials	78,947	78,947	-0-	-0-	
Technology	554,742	554,742	-0-	-0-	
Services	420,605	420,605	-0-	-0-	
Total	36,257,255	<u>\$ 36,257,255</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	
Certificates of deposit and cash and cash equivalents *					
	210,613	<u>\$ 36,467,868</u>			

*Certificates of deposit are reported at contract value.

The following methods and assumptions were used by the Hospital in estimating the fair value of its financial instruments:

Cash and cash equivalents, accounts payable, other current liabilities, salaries, wages and related liabilities and estimated third-party settlements: The carrying amount reported in the consolidated balance sheets for cash and cash equivalents, accounts payable, other current liabilities, salaries, wages and related liabilities and estimated third-party settlements approximate fair value based on short-term maturities.

Long-term debt: The fair value of the Hospital's variable rate debt is based on current traded value. The carrying value of loans payable and capital lease obligations approximates fair value based on the variable nature of its primary debt and current fixed rates available to similar entities with similar credit ratings.

HENRY COUNTY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

6. CAPITAL ASSETS

A summary of capital assets, including assets under capital leases, as of December 31, 2012 and 2011, follows:

	Balance December 31, 2011	Additions	Retirements	Transfers	Balance December 31, 2012
Land	\$ 2,448,234	\$ -0-	\$ -0-	\$ -0-	\$ 2,448,234
Land improvements	2,251,284	-0-	(22,355)	-	2,228,929
Buildings and improvements	49,539,495	775,329	(188,951)	150,759	50,276,632
Fixed equipment	15,910,214	143,421	(798,611)	-0-	15,255,024
Major equipment	29,877,790	267,595	(384,121)	4,743,944	34,505,208
Construction in progress	2,347,048	2,578,402	-0-	(4,894,703)	30,747
Total capital assets	102,374,065	3,764,747	(1,394,038)	-0-	104,744,774
Less accumulated depreciation:					
Land improvements	(2,015,689)	(69,639)	22,355	-0-	(2,062,973)
Buildings and improvements	(28,890,217)	(1,932,863)	188,951	-0-	(30,634,129)
Fixed equipment	(14,158,847)	(724,871)	797,591	-0-	(14,086,127)
Major equipment	(21,470,259)	(2,320,745)	384,121	-0-	(23,406,883)
Total accumulated depreciation	(66,535,012)	(5,048,118)	1,393,018	-0-	(70,190,112)
Capital assets, net	<u>\$ 35,839,053</u>	<u>\$ (1,283,371)</u>	<u>\$ (1,020)</u>	<u>\$ -0-</u>	<u>\$ 34,554,662</u>

	Balance December 31, 2010	Additions	Retirements	Transfers	Balance December 31, 2011
Land	\$ 2,448,234	\$ -0-	\$ -0-	\$ -0-	\$ 2,448,234
Land improvements	2,258,164	-0-	(6,880)	-0-	2,251,284
Buildings and improvements	54,700,046	41,789	(5,571,770)	369,430	49,539,495
Fixed equipment	15,930,489	65,898	(102,504)	16,331	15,910,214
Major equipment	28,128,704	1,940,545	(257,684)	66,225	29,877,790
Construction in progress	40,340	2,758,694	-0-	(451,986)	2,347,048
Total capital assets	103,505,977	4,806,926	(5,938,838)	-0-	102,374,065
Less accumulated depreciation:					
Land improvements	(1,953,263)	(65,173)	2,747	-0-	(2,015,689)
Buildings and improvements	(28,054,421)	(2,057,361)	1,221,565	-0-	(28,890,217)
Fixed equipment	(13,441,908)	(789,216)	72,277	-0-	(14,158,847)
Major equipment	(20,104,274)	(1,958,021)	592,036	-0-	(21,470,259)
Total accumulated depreciation	(63,553,866)	(4,869,771)	1,888,625	-0-	(66,535,012)
Capital assets, net	<u>\$ 39,952,111</u>	<u>\$ (62,845)</u>	<u>\$ (4,050,213)</u>	<u>\$ -0-</u>	<u>\$ 35,839,053</u>

During 2011, the Hospital sold the building and improvements and related equipment of the Woodlands assisted living facility. The book value of the assets amounted to \$5,596,101 with related accumulated depreciation of \$1,529,316. Proceeds from the sale of the building were \$4,513,483 resulting in a gain of \$446,698, which is included in other nonoperating revenue.

HENRY COUNTY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

7. LONG-TERM DEBT

In January 2012, the Hospital borrowed approximately \$5,600,000 from the Indiana Financing Authority (the Authority), the Health Facility Revenue Bonds Series 2012 (Series 2012 Bonds) to fund future capital projects. The Series 2012 Bonds bear interest at rates as determined by daily, weekly, flexible, semiannual, or fixed modes. The Series 2012 Bonds are secured by an interest in the gross revenues of the Hospital.

The Hospital and Authority then entered into an agreement with a Regions bank (Regions) whereby Regions purchased from the Authority all of the Series 2012 Bonds in a private placement. The agreement provided that Regions would hold the Series 2012 Bonds during the Initial Mode Period which runs through March 2017. During the Initial Mode Period, the Series 2012 Bonds would bear interest at the Initial Rate Mode (59.5% of Libor plus 232 or 247 basis points depending on the cash to debt ratio but in no event less than 2.45%) for 60 months with principal and interest payments determined using a 20-year amortization schedule. At the end of the Initial Mode Period, the Series 2012 bonds may be converted to another interest rate mode and remarketed to another bondholder or holders or renewed for another term period with Regions. The Series 2012 Bonds could be converted to another interest rate mode to accommodate market conditions at that time. If the Series 2012 Bonds could not be remarketed at the end of the Initial Mode Period, the Hospital would be subject to payment of the remaining principal of approximately \$4,400,000 at the end of the Initial Mode Period.

Annual bond payments for the 2012 bonds commenced on January 1, 2013 and continue through January 1, 2032 ranging from \$356,394 to \$357,442 with a variable interest rate.

In December 2009, the Hospital issued, through the Indiana Financing Authority, the Health Facility Revenue Bonds Series 2009 (Series 2009). The Hospital then entered into an agreement with a local financial institution where the financial institution purchased the Series 2009 in a private placement. The private placement agreement expires on January 1, 2017. At the end of the agreement, the Series 2009 bonds may be converted to another interest rate mode and remarketed to another bondholder or holders or renewed for another term period with the current financial institution. The Series 2009 bonds had an interest rate of 2.45% and 2.48% at December 31, 2012 and December 31, 2011, respectively, and are collateralized by Hospital revenues.

Annual bond payments for the 2009 bonds commenced on January 1, 2011 and continue through January 1, 2030 ranging from \$920,303 to \$1,143,649 with a variable interest rate.

HENRY COUNTY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

The bond agreement states that the interest rate for the 2009 and 2012 bonds will be calculated using LIBOR, plus an applicable margin component calculated on the cash to debt ratio of the borrower. In no event shall the resulting variable rate be less than 2.45%. The bond is secured by hospital revenues.

DMC financed various equipment purchases with 4-7% installment loans payable in monthly or annual installments with maturity dates ranging from 2010 to 2012. These loans are secured by equipment.

The Hospital has capital lease obligations, at varying rates of imputed interest of 2.73% to 8.51%, collateralized by leased equipment with costs of \$1,589,948 and \$1,450,282 as of December 31, 2012 and 2011, respectively. Accumulated depreciation on capital leases was \$551,276 and \$356,924 at December 31, 2012 and 2011, respectively.

A summary of long-term debt borrowings, payments and balances at and for the years ended December 31 follows:

	Balance December 31, 2011	Additional borrowings	Payments	Balance December 31, 2012	Current portion	Long-term portion
Demand Revenue Bonds, Series 2009	\$ 20,875,546	\$ -0-	\$ 6,279,609	\$ 14,595,937	\$ 563,269	\$ 14,032,668
Demand Revenue Bonds, Series 2012	-0-	5,589,189	-0-	5,589,189	219,460	5,369,729
Installment loans payable	3,936	-0-	3,936	-0-		-0-
Capital leases	966,610	192,600	320,314	838,896	328,909	509,987
	<u>\$ 21,846,092</u>	<u>\$ 5,781,789</u>	<u>\$ 6,603,859</u>	<u>\$ 21,024,022</u>	<u>\$ 1,111,638</u>	<u>\$ 19,912,384</u>

	Balance December 31, 2010	Additional borrowings	Payments	Balance December 31, 2011	Current portion	Long-term portion
Demand Revenue Bonds, Series 2009	\$ 21,594,121	\$ -0-	\$ 718,575	\$ 20,875,546	\$ 756,532	\$ 20,119,014
Installment loans payable	7,750	-0-	3,814	3,936	3,936	-0-
Capital leases	949,338	329,200	311,928	966,610	287,194	679,416
	<u>\$ 22,551,209</u>	<u>\$ 329,200</u>	<u>\$ 1,034,317</u>	<u>\$ 21,846,092</u>	<u>\$ 1,047,662</u>	<u>\$ 20,798,430</u>

HENRY COUNTY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

The Hospital is also required to meet certain financial and affirmative covenants. One of these covenants requires that the Hospital maintain a minimum of \$6.5 million in cash and investments with the Lender. The Hospital believes it is in compliance with all covenants as of December 31, 2012 and 2011.

Scheduled principal repayments on long-term debt following December 31, 2012 are as follows:

<u>Years Ending December 31,</u>	<u>Long-term debt</u>		<u>Capital leases</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 782,729	\$ 494,516	\$ 328,909	\$ 35,498
2014	811,223	475,353	278,326	20,019
2015	840,937	455,478	201,039	8,234
2016	871,889	434,875	30,622	1,185
2017	903,876	413,513	-0-	-0-
Thereafter	5,045,041	1,718,578	-0-	-0-
2023-2027	6,047,490	1,053,248	-0-	-0-
2028-2032	4,881,941	284,020	-0-	-0-
	<u>\$ 20,185,126</u>	<u>\$ 5,329,581</u>	<u>\$ 838,896</u>	<u>\$ 64,936</u>

8. NET PATIENT SERVICE REVENUE

Patient service revenue for 2012 and 2011 consists of the following:

	<u>2012</u>	<u>2011</u>
Inpatient services	\$ 60,983,689	\$ 56,229,057
Outpatient services	136,403,470	132,779,606
Long term care	10,721,047	-0-
Gross patient service revenue	<u>208,108,206</u>	<u>189,008,663</u>
Contractual allowances	96,440,984	90,064,676
Bad debts	10,008,823	9,259,577
Charity care	3,489,418	3,432,942
Deductions from revenue	<u>109,939,225</u>	<u>102,757,195</u>
Net patient service revenue	<u>\$ 98,168,981</u>	<u>\$ 86,251,468</u>

HENRY COUNTY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

The Board of Directors approves the fee schedule, which is administered with the expectation that clients are to pay for services at a rate commensurate with their ability to pay. No clients will be refused services because of their inability to pay. Essentially, the Hospital's policies define charity services as those services for which a discounted obligation for payment is anticipated. In assessing a client's inability to pay, the Hospital uses an ability-to-pay schedule based on income and dependents. The Hospital also adjusts charges based on contractual agreements with third-party payors. The Hospital maintains records to identify and monitor the level of charges foregone for services furnished under charity care policy and contractual adjustments. The Hospital has agreements with third-party payors including Medicare, Medicaid and the State of Indiana and other commercial insurance carriers that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare

Payments for inpatient acute care services are made based upon the patient's diagnosis, irrespective of cost. The diagnosis upon which payment is based is subject to review by Medicare representatives. Outpatient claims are reimbursed under Ambulatory Payment Classifications, which are based on the patient's made for the estimated effect of review and audits by the Program. Medicare reimbursements are subject to audit by Medicare. Provisions have been made for the estimated effect of review and audits by the Program.

Medicaid

Reimbursement for Medicaid services are paid at prospectively determined rates per discharge or per occasion of service.

Other

Payment agreements with certain commercial insurance carriers and other payors provide for payment using prospectively determined daily rates and discounts from established charges.

HENRY COUNTY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. The Hospital believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigation involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretations, as well as significant regulatory action including fines, penalties, and exclusions from the Medicare and Medicaid programs. As a result, there is at least a possibility that recorded estimates will change by a material amount in the near term.

9. PENSION PLANS

Plan Description

The Hospital has a defined contribution pension plan as authorized by IC 16-22-3-11. The plan provides retirement, disability and death benefits to plan members and beneficiaries. The plan was established by written agreement between the Hospital Board of Trustees and the Plan Administrator. The Plan Administrator issues a publicly available financial report that includes the financial statements and required supplementary information of the plan.

Funding Policy

The contribution requirements of plan members are established by the written agreement between the Hospital Board of Trustees and the Plan Administrator. The Hospital is required to contribute at the Board approved rate.

The Hospital amended its pension plan in July of 2010. Under the old plan, for employees hired before July 1, 2003 the Hospital contributed 7% on the first \$9,998 of covered wages and 12.7% on the amount over \$9,998. For employees hired on or after July 1, 2003, their pension rate was 6% on all earnings. Under the new plan, the Hospital contributes 4% of an eligible employee's wages and matches 50% of an employee's contribution to the plan up to 2% of their wages. Hospital contributions to the plan for 2012 and 2011 were approximately \$1,272,000 and \$1,217,000, respectively.

HENRY COUNTY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

10. SPLIT-DOLLAR LIFE INSURANCE POLICY

The Hospital has a Split-Dollar Life Insurance Agreement for a key employee that is recorded at contract value in Other Assets at approximately \$2,136,000 and \$2,205,000 as of December 31, 2012 and 2011, respectively. The Hospital is the sole and absolute owner of the related Life Insurance Policy. The Agreement was used to fund a supplemental retirement benefit plan. In the event the employee remains employed by the Hospital at least until reaching sixty five years of age, or as is otherwise provided in the Agreement, beginning with the Retirement Date, the Hospital will pay an annual benefit, as is stipulated in the Agreement until the death of the employee. An annual expense is recorded for the death benefit and the salary continuation components of the agreement.

11. EMPLOYEE HEALTH PLAN

The Hospital participates in a self-funded health plan covering substantially all employees. Covered services include medical benefits. The plan has annual reinsurance coverage starting at a specific level of \$300,000 per individual with a specific lifetime maximum reimbursement per covered person of \$1,700,000 and no aggregate limit. The financial statements include an estimated provision for claims that have been incurred but not reported. Total health claims expense was approximately \$4,627,000 and \$6,002,000 for the years ended December 31, 2012 and 2011, respectively.

12. NET POSITION RESTRICTED BY DONOR

Net position restricted by donor of \$975,196 and \$888,934 at December 31, 2012 and 2011, respectively; consist of donor-restricted funds held by the Foundation primarily for Hospital construction projects.

13. MALPRACTICE INSURANCE

Malpractice Insurance

The Indiana Medical Malpractice Act, IC 27-12 (the Act), provides a recovery for an occurrence of malpractice and for any injury or death of a patient due to an act of malpractice in excess of certain thresholds. The Act requires the Hospital to maintain medical malpractice liability insurance on a per occurrence basis and in the annual aggregate for amounts below the thresholds of the Act. The Indiana Medical Malpractice Act provides for a maximum recovery of \$1,250,000 per occurrence (\$7,500,000 annual aggregate) with the first \$250,000 covered by the Hospital's insurance and the remainder by the Fund.

HENRY COUNTY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

The Hospital is a member in a captive insurance company, Suburban Health Organization Segregated Portfolio Company, LLC, to fund the Hospital's required portion of the professional and physician insurance coverage pursuant to the Act as well as its general liability insurance and excess coverage.

14. INVESTMENT IN AFFILIATE

During 2011, the Hospital entered into an operating agreement with St. Vincent Health, Inc. to form Henry County Hospital St. Vincent Health Catheterization Lab Services, LLC (Cath Lab). The Hospital contributed \$1,800,000 to obtain a 50% equity interest in the new company whose purpose is to operate a cardiac catheterization laboratory within the Hospital. The agreement will continue until the Company is dissolved. The investment is accounted for by the equity method.

As a result of this joint venture, the Hospital recognized a loss during 2012 and 2011 of approximately \$164,000 and \$6,000, respectively, related to changes in equity of the Cath Lab. The loss is included within other operating revenue in the consolidated statements of operations and changes in net position.

15. CONCENTRATIONS OF CREDIT RISK

The Hospital grants credit without collateral to its patients, who are primarily local residents and are insured under third-party payor agreements. The mix of receivables and gross patient service revenues from patients and third-party payors for 2012 and 2011 was as follows:

	Receivables		Revenues	
	2012	2011	2012	2011
Self pay	23%	23%	6%	5%
Medicare and Medicaid	33%	42%	62%	62%
Other commercial	44%	35%	32%	33%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

HENRY COUNTY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

16. BLENDED COMPONENT UNITS

The Hospital's consolidated financial statements include the accounts of its Blended Component Units, DMC and the Foundation. All significant related party transactions have been eliminated from the consolidated financial statements. The following is a summary of the financial position of DMC as of and for the years ended December 31, 2012 and 2011:

	2012	2011
Current assets	\$ 3,997,931	\$ 4,924,231
Capital assets	141,851	118,726
Other assets	38,837	66,171
Total assets	<u>\$ 4,178,619</u>	<u>\$ 5,109,128</u>
Current liabilities	\$ 23,395,778	\$ 18,296,157
Net position	(19,217,159)	(13,187,029)
Total liabilities and net position	<u>\$ 4,178,619</u>	<u>\$ 5,109,128</u>
Total operating revenue	\$ 21,949,962	\$ 23,099,503
Total non-operating income	177,427	24,854
Total revenue	22,127,389	23,124,357
Total expenses	28,157,519	27,282,485
Change in net position	<u>\$ (6,030,130)</u>	<u>\$ (4,158,128)</u>

The following is a summary of the financial position of the Foundation as of and for the years ended December 31, 2012 and 2011:

	2012	2011
Current assets	\$ 606,298	\$ 750,815
Investments and assets whose use is limited	20,404,959	21,760,856
Capital assets	11,952,108	11,754,422
Other assets	293,169	388,061
Total assets	<u>\$ 33,256,534</u>	<u>\$ 34,654,154</u>
Current liabilities	\$ 907,972	\$ 551,757
Long term debt	1,463,603	7,042,395
Net position	30,884,959	27,060,002
Total liabilities and net position	<u>\$ 33,256,534</u>	<u>\$ 34,654,154</u>
Total operating revenue	\$ 3,661,575	\$ 4,846,631
Total non-operating income (loss)	2,538,311	(884,036)
Total revenue	6,199,886	3,962,595
Total expenses	2,374,929	3,530,726
Change in net position	<u>\$ 3,824,957</u>	<u>\$ 431,869</u>

HENRY COUNTY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

17. SUBSEQUENT EVENTS

Subsequent to December 31, 2012, the Hospital entered into an agreement with a current lessor entity to lease additional long term care facilities operated by related management companies. Furthermore, the Hospital entered into agreements with the related management companies to manage the leased long term care facilities.

18. UPCOMING GASB PRONOUNCEMENTS

Management has not currently determined what, if any, effects of implementation of the following statements may have on the consolidated financial statements.

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, issued March 2012, is effective for periods beginning after December 15, 2012. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

SUPPLEMENTARY INFORMATION

HENRY COUNTY HOSPITAL

CONSOLIDATING BALANCE SHEETS DECEMBER 31, 2012

ASSETS	Hospital	Foundation	Diversified Management Corporation	Eliminations	Total
Current assets					
Cash and cash equivalents	\$ 8,604,163	\$ 443,294	\$ 718,822	\$ -0-	\$ 9,766,279
Patient accounts receivable, net	8,848,295	-0-	2,409,918	-0-	11,258,213
Supplies and other current assets	2,691,794	163,004	772,235	(57,997)	3,569,036
Due from related parties	21,015,910	-0-	96,956	(21,112,866)	-0-
Current portion of assets whose use is limited	1,058,782	-0-	-0-	-0-	1,058,782
Total current assets	42,218,944	606,298	3,997,931	(21,170,863)	25,652,310
Investments	-0-	19,429,763	-0-	-0-	19,429,763
Assets whose use is limited					
Internally designated	15,633,512	-0-	-0-	-0-	15,633,512
Held by Trustee	1,256,969	-0-	-0-	-0-	1,256,969
By donor - expendable - for capital acquisition	-0-	975,196	-0-	-0-	975,196
	16,890,481	975,196	-0-	-0-	17,865,677
Less current portion	1,058,782	-0-	-0-	-0-	1,058,782
Total assets whose use is limited	15,831,699	975,196	-0-	-0-	16,806,895
Capital assets, net	22,460,703	11,952,108	141,851	-0-	34,554,662
Other assets	7,949,184	293,169	38,837	(1,431,413)	6,849,777
Total assets	<u>\$ 88,460,530</u>	<u>\$ 33,256,534</u>	<u>\$ 4,178,619</u>	<u>\$ (22,602,276)</u>	<u>\$ 103,293,407</u>

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HENRY COUNTY HOSPITAL

CONSOLIDATING BALANCE SHEETS DECEMBER 31, 2012

LIABILITIES AND NET POSITION	Hospital	Foundation	Diversified Management Corporation	Eliminations	Total
Current liabilities					
Current portion of long-term debt	\$ 1,058,782	\$ 52,856	\$ -0-	\$ -0-	\$ 1,111,638
Accounts payable and accrued expenses	3,751,268	176,252	1,909,750	(437,384)	5,399,886
Accrued wages and related liabilities	3,943,720	-0-	-0-	-0-	3,943,720
Estimated third-party settlements	1,958,375	-0-	-0-	-0-	1,958,375
Due to related parties	-0-	678,864	21,486,028	(22,164,892)	-0-
Total current liabilities	10,712,145	907,972	23,395,778	(22,602,276)	12,413,619
Other long-term liabilities	233,844	-0-	-0-	-0-	233,844
Long-term debt, net of current portion	18,448,781	1,463,603	-0-	-0-	19,912,384
Total liabilities	29,394,770	2,371,575	23,395,778	(22,602,276)	32,559,847
Net position					
Unrestricted	39,222,139	19,474,114	(19,359,010)	-0-	39,337,243
Invested in capital assets, net of related debt	2,953,140	10,435,649	141,851	-0-	13,530,640
Internally designated - funded depreciation	15,633,512	-0-	-0-	-0-	15,633,512
Restricted					
Held by trustee	1,256,969	-0-	-0-	-0-	1,256,969
By donor - expendable - for capital acquisition	-0-	975,196	-0-	-0-	975,196
Total net position	59,065,760	30,884,959	(19,217,159)	-0-	70,733,560
Total liabilities and net position	<u>\$ 88,460,530</u>	<u>\$ 33,256,534</u>	<u>\$ 4,178,619</u>	<u>\$ (22,602,276)</u>	<u>\$ 103,293,407</u>

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HENRY COUNTY HOSPITAL

CONSOLIDATING STATEMENTS OF OPERATIONS AND CHANGES IN NET POSITION YEAR ENDED DECEMBER 31, 2012

	Hospital	Foundation	Diversified Management Corporation	Eliminations	Total
Operating revenue					
Net patient service revenue	\$ 78,091,074	\$ 1,053,075	\$ 21,949,962	\$ (2,925,130)	\$ 98,168,981
Other revenue	4,965,581	2,608,500	-0-	(3,068,638)	4,505,443
Total revenue	83,056,655	3,661,575	21,949,962	(5,993,768)	102,674,424
Operating expenses					
Salaries and benefits	37,980,227	335,175	13,454,446	(752,236)	51,017,612
Medical professional fees	1,445,041	-0-	2,138,091	-0-	3,583,132
Purchased services	11,635,393	114,372	1,815,589	(153,929)	13,411,425
Medical supplies and drugs	8,454,679	-0-	7,639,973	(2,207,750)	13,886,902
Other supplies	1,522,776	18,029	-0-	-0-	1,540,805
Depreciation and amortization	4,545,362	525,397	68,502	-0-	5,139,261
Utilities	1,439,139	215,483	114,251	-0-	1,768,873
Rent	3,708,505	-0-	405,628	(1,820,585)	2,293,548
Hospital assessment fee	4,372,303	-0-	-0-	-0-	4,372,303
Other	3,133,259	1,166,473	2,521,039	(1,059,268)	5,761,503
Total expenses	78,236,684	2,374,929	28,157,519	(5,993,768)	102,775,364
Operating income (loss)	4,819,971	1,286,646	(6,207,557)	-0-	(100,940)
Nonoperating income (expense)					
Investment income (loss)	1,991,981	2,506,405	28,593	(75,277)	4,451,702
Interest expense	(530,537)	(44,385)	(46,872)	75,277	(546,517)
Other nonoperating	359,380	76,291	195,706	-0-	631,377
Total nonoperating income (expense)	1,820,824	2,538,311	177,427	-0-	4,536,562
Change in net position	6,640,795	3,824,957	(6,030,130)	-0-	4,435,622
Net position beginning of year	52,424,965	27,060,002	(13,187,029)	-0-	66,297,938
Net position end of year	<u>\$ 59,065,760</u>	<u>\$ 30,884,959</u>	<u>\$ (19,217,159)</u>	<u>\$ -0-</u>	<u>\$ 70,733,560</u>

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HENRY COUNTY HOSPITAL

CONSOLIDATING STATEMENTS OF CASH FLOWS YEAR ENDED DECEMBER 31, 2012

	Hospital	Foundation	Diversified Management Corporation	Eliminations	Total
Cash flows from operating activities					
Cash received from patients and third party payors	\$ 74,104,964	\$ 1,053,075	\$ 21,835,639	\$ (2,925,130)	\$ 94,068,548
Cash paid to employees for wages and benefits	(38,097,436)	(335,175)	(13,454,446)	752,236	(51,134,821)
Cash paid to vendors for goods and services	(37,792,888)	(865,993)	(9,180,190)	5,145,277	(42,693,794)
Other operating receipts, net	4,965,581	2,608,500	-0-	(2,972,383)	4,601,698
Net cash flows from operating activities	3,180,221	2,460,407	(798,997)	-0-	4,841,631
Cash flows from noncapital financing activities					
Other nonoperating	359,380	76,291	16,674	-0-	452,345
Net cash flows from noncapital financing activities	359,380	76,291	16,674	-0-	452,345
Cash flows from capital and related financing activities					
Acquisition and construction of capital assets	(2,789,662)	(718,191)	(64,294)	-0-	(3,572,147)
Loss (gain) on disposal of property and equipment	315	-0-	-0-	-0-	315
Proceeds from sale of equipment	705	-0-	-0-	-0-	705
Interest on long-term debt	(530,537)	(44,385)	(46,872)	(75,277)	(697,071)
Payment for 2012 bond issuance costs	(64,139)	-0-	-0-	-0-	(64,139)
Proceeds from issuance of long-term debt	5,589,189	-0-	-0-	-0-	5,589,189
Principal payments on long-term debt, net	(809,941)	(5,789,982)	(3,936)	-0-	(6,603,859)
Net cash flows from capital and related financing activities	1,395,930	(6,552,558)	(115,102)	(75,277)	(5,347,007)
Cash flows from investing activities					
Investment income and other non-operating	1,991,981	2,506,405	224,299	75,277	4,797,962
Change in other assets, net	295,511	94,892	-0-	-0-	390,403
Purchases of investments in assets whose use is limited - internally designated, held by Trustee, and investments	(7,870,437)	(1,930,549)	-0-	-0-	(9,800,986)
Proceeds from sale of investments in assets whose use is limited - internally designated, held by Trustee, and investments	6,959,135	3,367,816	-0-	-0-	10,326,951
Change in assets whose use is limited - restricted by donor, net	-0-	(86,262)	-0-	-0-	(86,262)
Net cash flows from investing activities	1,376,190	3,952,302	224,299	75,277	5,628,068
Net change in cash and cash equivalents	6,311,721	(63,558)	(673,126)	-0-	5,575,037
Cash and cash equivalents					
Beginning of year	3,770,001	506,852	1,391,948	-0-	5,668,801
End of year	\$ 10,081,722	\$ 443,294	\$ 718,822	\$ -0-	\$ 11,243,838

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HENRY COUNTY HOSPITAL

CONSOLIDATING STATEMENTS OF CASH FLOWS YEAR ENDED DECEMBER 31, 2012

	Hospital	Foundation	Diversified Management Corporation	Eliminations	Total
Reconciliation of operating income (loss) to net cash flows from operating activities					
Operating income (loss)	\$ 4,819,971	\$ 1,286,646	\$ (6,207,557)	\$ -0-	\$ (100,940)
Adjustment to reconcile operating income (loss) to net cash flows from operating activities:					
Depreciation and amortization	4,545,362	525,397	68,502	-0-	5,139,261
Bad debts	9,123,053	-0-	868,688	-0-	9,991,741
Changes in assets and liabilities:					
Patient accounts receivable	(8,749,838)	-0-	(983,011)	-0-	(9,732,849)
Supplies and other current assets	(1,428,816)	80,959	(78,025)	(17,578)	(1,443,460)
Accounts payable and accrued expenses	824,061	(15,755)	128,636	(78,677)	858,265
Accrued salaries and related liabilities	(117,209)	-0-	-0-	-0-	(117,209)
Other long-term liabilities	233,844	-0-	-0-	-0-	233,844
Due from (to) related parties	(6,083,185)	583,160	5,403,770	96,255	-0-
Estimated third-party settlements	12,978	-0-	-0-	-0-	12,978
Net cash flows from operating activities	<u>\$ 3,180,221</u>	<u>\$ 2,460,407</u>	<u>\$ (798,997)</u>	<u>\$ -0-</u>	<u>\$ 4,841,631</u>
Reconciliation of cash and cash equivalents to the balance sheets					
Cash and cash equivalents					
In current assets	\$ 8,604,163	\$ 443,294	\$ 718,822	\$ -0-	\$ 9,766,279
In assets whose use is limited - internally designated	1,477,559	-0-	-0-	-0-	1,477,559
Total cash and cash equivalents	<u>10,081,722</u>	<u>443,294</u>	<u>718,822</u>	<u>-0-</u>	<u>\$ 11,243,838</u>

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HENRY COUNTY HOSPITAL

SUPPLEMENTAL SCHEDULE OF HOSPITAL OPERATIONS YEARS ENDED DECEMBER 31, 2012 AND 2011

	Hospital 2012	NCFIM 2012	NCP 2012	Total 2012	Total 2011	Change
Operating revenue						
Net patient service revenue	\$ 73,925,385	2,614,091	1,551,598	\$ 78,091,074	\$ 65,429,481	\$ 12,661,593
Other revenue	4,752,159	72,754	140,668	4,965,581	3,256,064	1,709,517
Total revenue	<u>78,677,544</u>	<u>2,686,845</u>	<u>1,692,266</u>	<u>83,056,655</u>	<u>68,685,545</u>	<u>14,371,110</u>
Operating expenses						
Salaries and benefits	32,051,418	3,768,686	2,160,123	37,980,227	38,084,185	(103,958)
Medical professional fees	1,417,200	27,841	-0-	1,445,041	1,601,259	(156,218)
Purchased services	11,582,184	12,862	40,347	11,635,393	5,492,145	6,143,248
Medical supplies and drugs	8,166,503	90,977	197,199	8,454,679	7,995,657	459,022
Other supplies	1,496,851	22,337	3,588	1,522,776	949,012	573,764
Depreciation and amortization	4,451,023	94,339	-0-	4,545,362	4,224,813	320,549
Utilities	1,398,895	20,419	19,825	1,439,139	1,260,448	178,691
Rent	3,044,860	589,713	73,932	3,708,505	2,282,729	1,425,776
Hospital assessment fee	4,372,303	-0-	-0-	4,372,303	-0-	4,372,303
Other	3,013,017	61,868	58,374	3,133,259	2,758,822	374,437
Total expenses	<u>70,994,254</u>	<u>4,689,042</u>	<u>2,553,388</u>	<u>78,236,684</u>	<u>64,649,070</u>	<u>13,587,614</u>
Operating income (loss)	7,683,290	(2,002,197)	(861,122)	4,819,971	4,036,475	783,496
Nonoperating income (expense)						
Investment income	1,991,906	-0-	75	1,991,981	(342,999)	2,334,980
Interest expense	(530,537)	-0-	-0-	(530,537)	(452,752)	(77,785)
Other nonoperating	(22,692)	233,826	148,246	359,380	62,745	296,635
Total nonoperating income (expense)	<u>1,438,677</u>	<u>233,826</u>	<u>148,321</u>	<u>1,820,824</u>	<u>(733,006)</u>	<u>2,553,830</u>
Change in net position	<u>\$ 9,121,967</u>	<u>\$ (1,768,371)</u>	<u>\$ (712,801)</u>	<u>\$ 6,640,795</u>	<u>\$ 3,303,469</u>	<u>\$ 3,337,326</u>

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HENRY COUNTY HOSPITAL

SUPPLEMENTAL SCHEDULE OF HOSPITAL OPERATIONS YEARS ENDED DECEMBER 31, 2011 AND 2010

	Hospital 2011	NCFIM 2011	NCP 2011	Total 2011	Total 2010	Change
Operating revenue						
Net patient service revenue	\$ 61,573,372	\$ 2,446,176	\$ 1,409,933	\$ 65,429,481	\$ 65,157,848	\$ 271,633
Other revenue	2,732,795	189,153	334,116	3,256,064	2,767,158	488,906
Total revenue	<u>64,306,167</u>	<u>2,635,329</u>	<u>1,744,049</u>	<u>68,685,545</u>	<u>67,925,006</u>	<u>760,539</u>
Operating expenses						
Salaries and benefits	32,890,618	3,436,234	1,757,333	38,084,185	39,268,191	(1,184,006)
Medical professional fees	1,576,389	24,870	-0-	1,601,259	1,393,342	207,917
Purchased services	5,438,353	5,194	48,598	5,492,145	5,477,877	14,268
Medical supplies and drugs	7,719,016	101,289	175,352	7,995,657	8,102,472	(106,815)
Other supplies	917,917	28,704	2,391	949,012	962,637	(13,625)
Depreciation and amortization	4,119,522	105,291	-0-	4,224,813	4,048,913	175,900
Utilities	1,223,208	19,490	17,750	1,260,448	1,194,947	65,501
Rent	1,649,410	559,657	73,662	2,282,729	2,082,231	200,498
Other	2,650,291	60,460	48,071	2,758,822	3,199,267	(440,445)
Total expenses	<u>58,184,724</u>	<u>4,341,189</u>	<u>2,123,157</u>	<u>64,649,070</u>	<u>65,729,877</u>	<u>(1,080,807)</u>
Operating income (loss)	6,121,443	(1,705,860)	(379,108)	4,036,475	2,195,129	1,841,346
Nonoperating income (expense)						
Investment income (loss)	(343,141)	-0-	142	(342,999)	1,813,738	(2,156,737)
Interest expense	(452,752)	-0-	-0-	(452,752)	(405,821)	(46,931)
Other nonoperating	62,939	164	(358)	62,745	14,420	48,325
Total nonoperating income (expense)	<u>(732,954)</u>	<u>164</u>	<u>(216)</u>	<u>(733,006)</u>	<u>1,422,337</u>	<u>(2,155,343)</u>
Change in net position	<u>\$ 5,388,489</u>	<u>\$ (1,705,696)</u>	<u>\$ (379,324)</u>	<u>\$ 3,303,469</u>	<u>\$ 3,617,466</u>	<u>\$ (313,997)</u>

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HENRY COUNTY HOSPITAL

CONSOLIDATING BALANCE SHEETS DECEMBER 31, 2011

ASSETS	Hospital	Foundation	Diversified Management Corporation	Eliminations	Total
Current assets					
Cash and cash equivalents	\$ 3,559,388	\$ 506,852	\$ 1,391,948	\$ -0-	\$ 5,458,188
Patient accounts receivable, net	9,221,510	-0-	2,300,205	-0-	11,521,715
Supplies and other current assets	1,262,978	243,963	694,210	(75,575)	2,125,576
Due from related parties	15,338,414	-0-	537,868	(15,876,282)	-0-
Current portion of assets whose use is limited	779,680	-0-	-0-	-0-	779,680
Total current assets	30,161,970	750,815	4,924,231	(15,951,857)	19,885,159
Investments	-0-	20,871,922	-0-	-0-	20,871,922
Assets whose use is limited					
Internally designated	14,707,012	-0-	-0-	-0-	14,707,012
By donor - expendable - for capital acquisition	-0-	888,934	-0-	-0-	888,934
	14,707,012	888,934	-0-	-0-	15,595,946
Less current portion	779,680	-0-	-0-	-0-	779,680
Total assets whose use is limited	13,927,332	888,934	-0-	-0-	14,816,266
Capital assets, net	23,965,905	11,754,422	118,726	-0-	35,839,053
Other assets	8,244,695	388,061	66,171	(1,431,413)	7,267,514
Total assets	<u>\$ 76,299,902</u>	<u>\$ 34,654,154</u>	<u>\$ 5,109,128</u>	<u>\$ (17,383,270)</u>	<u>\$ 98,679,914</u>

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HENRY COUNTY HOSPITAL

CONSOLIDATING BALANCE SHEETS DECEMBER 31, 2011

LIABILITIES AND NET POSITION	Hospital	Foundation	Diversified Management Corporation	Eliminations	Total
Current liabilities					
Current portion of long-term debt	\$ 779,680	\$ 264,046	\$ 3,936	\$ -0-	\$ 1,047,662
Accounts payable and accrued expenses	2,927,207	192,007	1,795,567	(385,223)	4,529,558
Accrued wages and related liabilities	4,060,929	-0-	-0-	-0-	4,060,929
Estimated third-party settlements	1,945,397	-0-	-0-	-0-	1,945,397
Due to related parties	405,689	95,704	16,496,654	(16,998,047)	-0-
Total current liabilities	10,118,902	551,757	18,296,157	(17,383,270)	11,583,546
Long-term debt, net of current portion	13,756,035	7,042,395	-0-	-0-	20,798,430
Total liabilities	23,874,937	7,594,152	18,296,157	(17,383,270)	32,381,976
Net position					
Unrestricted	28,287,763	21,723,087	(13,301,819)	-0-	36,709,031
Invested in capital assets, net of related debt	9,430,190	4,447,981	114,790	-0-	13,992,961
Internally designated - funded depreciation	14,707,012	-0-	-0-	-0-	14,707,012
Restricted					
By donor - expendable - for capital acquisition	-0-	888,934	-0-	-0-	888,934
Total net position	52,424,965	27,060,002	(13,187,029)	-0-	66,297,938
Total liabilities and net position	\$ 76,299,902	\$ 34,654,154	\$ 5,109,128	\$ (17,383,270)	\$ 98,679,914

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HENRY COUNTY HOSPITAL

CONSOLIDATING STATEMENTS OF OPERATIONS AND CHANGES IN NET POSITION YEAR ENDED DECEMBER 31, 2011

	Hospital	Foundation	Diversified Management Corporation	Eliminations	Total
Operating revenue					
Net patient service revenue	\$ 65,429,481	\$ 1,036,925	\$ 23,099,503	\$ (3,314,441)	\$ 86,251,468
Other revenue	3,256,064	3,809,706	-0-	(2,960,133)	4,105,637
Total revenue	68,685,545	4,846,631	23,099,503	(6,274,574)	90,357,105
Operating expenses					
Salaries and benefits	38,084,185	929,079	13,039,955	(1,159,663)	50,893,556
Medical professional fees	1,601,259	-0-	2,138,486		3,739,745
Purchased services	5,492,145	190,475	1,772,671	(125,145)	7,330,146
Medical supplies and drugs	7,995,657	-0-	7,439,435	(2,187,409)	13,247,683
Other supplies	949,012	136,638	-0-	-0-	1,085,650
Depreciation and amortization	4,224,813	666,079	68,045	-0-	4,958,937
Utilities	1,260,448	301,117	110,158	-0-	1,671,723
Rent	2,282,729	-0-	424,228	(1,759,596)	947,361
Other	2,758,822	1,307,338	2,289,507	(1,042,761)	5,312,906
Total expenses	64,649,070	3,530,726	27,282,485	(6,274,574)	89,187,707
Operating income (loss)	4,036,475	1,315,905	(4,182,982)	-0-	1,169,398
Nonoperating income (expense)					
Investment income	(342,999)	(1,249,153)	55,490	(101,824)	(1,638,486)
Interest expense	(452,752)	(180,662)	(47,310)	101,824	(578,900)
Other nonoperating	62,745	545,779	16,674	-0-	625,198
Total nonoperating income (expense)	(733,006)	(884,036)	24,854	-0-	(1,592,188)
Change in net position	3,303,469	431,869	(4,158,128)	-0-	(422,790)
Net position beginning of year	49,121,496	26,628,133	(9,028,901)	-0-	66,720,728
Net position end of year	<u>\$ 52,424,965</u>	<u>\$ 27,060,002</u>	<u>\$ (13,187,029)</u>	<u>\$ -0-</u>	<u>\$ 66,297,938</u>

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HENRY COUNTY HOSPITAL

CONSOLIDATING STATEMENT OF CASH FLOWS YEAR ENDED DECEMBER 31, 2011

	Hospital	Foundation	Diversified Management Corporation	Eliminations	Total
Cash flows from operating activities					
Cash received from patients and third party payors	\$ 64,222,867	\$ 1,036,925	\$ 22,981,545	\$ (3,314,441)	\$ 84,926,896
Cash paid to employees for wages and benefits	(37,895,592)	(929,079)	(13,039,955)	1,159,663	(50,704,963)
Cash paid to vendors for goods and services	(25,239,867)	(2,091,523)	(10,861,744)	5,324,066	(32,869,068)
Other operating receipts, net	3,256,064	3,410,141	-0-	(2,763,499)	3,902,706
Net cash flows from operating activities	4,343,472	1,426,464	(920,154)	405,789	5,255,571
Cash flows from noncapital financing activities					
Other nonoperating	62,745	545,779	16,674	-0-	625,198
Net cash flows from noncapital financing activities	62,745	545,779	16,674	-0-	625,198
Cash flows from capital and related financing activities					
Acquisition and construction of capital assets	(4,754,565)	(25,260)	(34,710)	-0-	(4,814,535)
Loss (gain) on disposal of property and equipment	(24,393)	(446,698)	7,821	-0-	(463,270)
Proceeds from sale of the Woodlands building and equipment	26,850	4,484,933	1,700	-0-	4,513,483
Interest on long-term debt	(452,752)	(180,662)	(47,310)	101,824	(578,900)
Principal payments on long-term debt, net	(779,002)	(251,501)	(3,814)	-0-	(1,034,317)
Net cash flows from capital and related financing activities	(5,983,862)	3,580,812	(76,313)	101,824	(2,377,539)
Cash flows from investing activities					
Investment income	(342,999)	(1,249,153)	55,490	(101,824)	(1,638,486)
Change in other assets, net	(1,520,282)	(295,107)	405,790	(405,789)	(1,815,388)
Purchases of investments in assets whose use is limited - internally designated and investments	(10,208,191)	(6,976,644)	-0-	-0-	(17,184,835)
Proceeds from sale of investments in assets whose use is limited - internally designated and investments	12,371,436	2,207,022	-0-	-0-	14,578,458
Change in assets whose use is limited - restricted by donor, net	-0-	37,057	-0-	-0-	37,057
Net cash flows from investing activities	299,964	(6,276,825)	461,280	(507,613)	(6,023,194)
Net change in cash and cash equivalents	(1,277,681)	(723,770)	(518,513)	-0-	(2,519,964)
Cash and cash equivalents					
Beginning of year	5,047,682	1,230,622	1,910,461	-0-	8,188,765
End of year	\$ 3,770,001	\$ 506,852	\$ 1,391,948	\$ -0-	\$ 5,668,801

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HENRY COUNTY HOSPITAL

CONSOLIDATING STATEMENT OF CASH FLOWS YEAR ENDED DECEMBER 31, 2011

	Hospital	Foundation	Diversified Management Corporation	Eliminations	Total
Reconciliation of operating income (loss) to net cash flows from operating activities					
Operating income (loss)	\$ 4,036,475	\$ 1,315,905	\$ (4,182,982)	\$ -0-	\$ 1,169,398
Adjustment to reconcile operating income (loss) to net cash flows from operating activities:					
Depreciation and amortization	4,224,813	666,079	68,045	-0-	4,958,937
Bad debts	8,219,399	-0-	1,040,178	-0-	9,259,577
Capital project abandoned	-0-	-0-	-0-	-0-	-0-
Changes in assets and liabilities:					
Patient accounts receivable	(9,404,155)	-0-	(1,158,136)	-0-	(10,562,291)
Supplies and other current assets	(261,468)	(146,743)	5,148	(1,637)	(404,700)
Accounts payable and accrued expenses	854,940	(9,212)	17,184	(194,997)	667,915
Accrued salaries and related liabilities	188,593	-0-	-0-	-0-	188,593
Other long-term liabilities	(405,789)	-0-	-0-	405,789	-0-
Due from (to) related parties	(3,087,478)	(399,565)	3,290,409	196,634	-0-
Estimated third-party settlements	(21,858)	-0-	-0-	-0-	(21,858)
Net cash flows from operating activities	<u>\$ 4,343,472</u>	<u>\$ 1,426,464</u>	<u>\$ (920,154)</u>	<u>\$ 405,789</u>	<u>\$ 5,255,571</u>
Reconciliation of cash and cash equivalents to the balance sheets					
Cash and cash equivalents					
In current assets	\$ 3,559,388	\$ 506,852	\$ 1,391,948	\$ -0-	\$ 5,458,188
In assets whose use is limited - internally designated	210,613	-0-	-0-	-0-	210,613
Total cash and cash equivalents	<u>\$ 3,770,001</u>	<u>\$ 506,852</u>	<u>\$ 1,391,948</u>	<u>\$ -0-</u>	<u>\$ 5,668,801</u>

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